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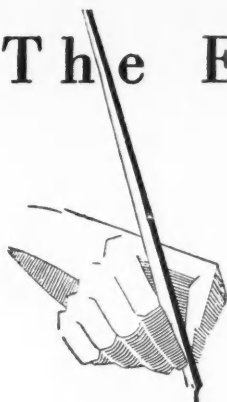
The Magazine of Wall Street *and Business Analyst*

90 BROAD STREET

Member A.B.C.

NEW YORK, N. Y.

With The Editors



Premature But Necessary

SINCE it became apparent that corporate earnings are likely to be subjected not only to increased taxes but to new ones on "excess profits," there has been a scramble to apply the prospective levies to specific cases. Either invested capital or average earnings over recent years are generally accepted as the alternative bases on which the next taxes will be figured. At least those are the only methods suggested by examples from our own past and the current policies of England and Canada.

Guesses and assumptions are rife throughout the process. First you have to project the earnings of your company; then you decide which method of taxing is most likely (or

take both); then finally you guess at the rate imposed on the assumed base. And that certainly sounds like a lot of ifs. In fact, it has been objected that the whole idea of anticipating the effect of coming taxes is futile because so premature.

That is a very easy way to look at it. At first thought it also seems the conservative way. However, the attempt to see ahead is one that gains in importance in geometric ratio with its increasing difficulty. Whether or not you agree that the present is the most confused of all times in the country's history, you undoubtedly acknowledge the problems facing the investor to be at a new high. They cannot be shrugged aside; they must

be met with whatever ability to anticipate the future logically is at our command.

One caution in this particular job of forecasting tax results is in order, though. Remember that any company's public report to stockholders may and may not be a duplicate of the report filed with the Government. A good many sets of books are consistently stiffer in depreciation charges, for instance, than the Government will allow in tax returns. All that can be hoped for in using the available figures to make your calculations is an idea of the *relative* position of the company under the new defense setup. Any success at all in the effort is decidedly worth while.

★ ★ ★ COMING IMPORTANT FEATURES ★ ★ ★

1940 Mid-Year Security Appraisal and Forecast Issues

(Part I in this issue)

Part II, August 10th Issue—Motors, Chemicals, Foods, Steels, Tobaccos, Movies

Part III, August 24th Issue—Building, Metals, Oil, Merchandising



James Sawders from Cushing

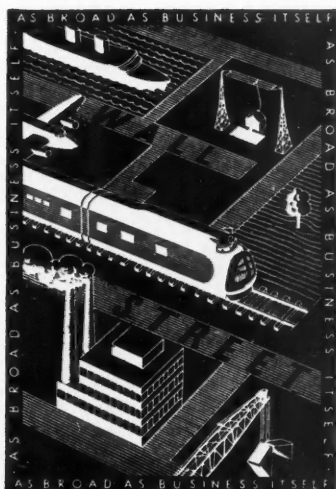
Watching a business boomlet fed by anticipation of an armament boom, investors are wondering about corporate profits and taxes. Aggregate reports for manufacturing, mining and trade show profit-making ability approximately as great as ever before, although other economic segments still go hungry. See article on page 454.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher*

:

LAURENCE STERN, *Managing Editor*



The Trend of Events

DEFENSE AND POLITICS . . . The nature of the American people make it inevitable that long before November the national defense effort will be a political issue. The ins will claim perfection in handling the Government's responsibilities and lay the blame for any too obvious delays on business or the political opposition. The outs will make the most of real or apparent blunders of the Administration, without false modesty as to their ability to do better if they get in. When a citizen attempts to judge how well his money is being spent for his safety, a great deal will depend on which newspapers he reads and even to which party his sympathies belong.

There is nothing lofty about the process, but it seems to be democracy as it works everywhere. And the great weakness to be avoided is not the possibility of mistakes so much as the tendency to cover them up, to cover up all details, perhaps, in order to obscure for the present the minor failures. That weakness played a part in humbling France.

The headlines say that the National Defense Advisory Commission had "cleared" Army and Navy contracts totaling \$1,661,000,000 between early June and the middle of July. Of this impressive sum over \$1,390,000,000 was for the Navy, the bulk of it certainly for ships which cannot even be started in the present swamped condition

of American yards. Somewhere around 80 per cent of the headline sum apparently represented dollars contracted for spending at some date in the nebulous future; only a minor part of it meant an actual advance toward more dependable national defense.

Because the whole project is so young, this and several other possible criticisms might be accused of showing a carping attitude. In their place we substitute two suggestions: First, let progress reports be made in terms of desired ends—of planes, ships, tanks or guns—rather than in dollar totals. Second, distinguish in all cases between work in hand or going into immediate production and that contemplated "as soon as possible." The facts shouldn't hurt the politicians of either party as much as they will help the nation.

CAN MONEY REMAIN CHEAP? . . . Conclusive proof is available from various eminent quarters that interest rates have (a) touched a bottom from which they must soon rise sharply, with rather disastrous consequences for holders of better grade bonds, and (b) have gone about as low as can be expected but must stay at these levels simply because the Government now calls the tune and would suffer by any change. The question of whether the era of cheap money will last is extremely important and unusually clear-cut in the answers it

BUSINESS, FINANCIAL and INVESTMENT COUNSELORS • 1907—"Over Thirty-Two Years of Service"—1940

calls forth, most of them being in the affirmative.

The latest yes, from Dr. J. Franklin Ebersole of Harvard, brings the subject up to date with a frank look at the possibility that money rates in this country might face the strain of a war as well as the defense preparations already under way. Even that, Dr. Ebersole thinks, could hardly upset the present relationship between money supply and demand. "I believe," he says, "the United States could fight a war on 2¾ per cent interest." His reasoning is that against the "few billions" needed for defense there are some ten billions in excess reserves of Reserve banks, another seven billions in member banks, and about eleven billions in public deposits above the amount needed even to handle a substantial increase in business activity. Any tendency for prices to get out of hand could easily be controlled by the Government, which could in fact conscript money, plants and manpower exactly as has been arranged in England. The British have decided to make it a "3 per cent war" and we, with our greater money supplies, can shade that rate a quarter of one per cent.

Dr. Ebersole's advice to banks to buy long-term Governments freely is probably sound—for banks. Whatever reservations the private investor may make to himself will be based on doubts whether or not this country will be ready to follow England's example in handing complete dictatorial powers to the Government, and whether or not bond prices can stay near an all-time peak through psychological stresses.

FOREIGN TRADE SHIFTS . . . Export figures are displaying no more than their usual lag behind the events in reaching the public, but the last three months have imposed an extraordinary strain on the patience of those who follow them. One after another our European customers have been lost, while the closing of those same markets also reduces the ability of other sections of the world such as South America to buy from us. If trouble with Japan should interfere with trade in that direction, reliance for export business would be shifted still more directly to Canada and Great Britain, and therefore to military rather than peacetime materials. It is becoming clear that while the spur to business activity provided by our defense program will be able to offset any loss of foreign trade, the distorting effects on individual industries are to be exaggerated over the next few months.

INDUSTRIAL CONSTRUCTION . . . During the first half of this year contract awards for industrial construction amounted to \$220,000,000 or only \$60,000,000 less than the total for all of 1939. For June, according to the *Engineering News Record*, the figure was \$51,130,000 and this, with the exception of June, 1937, was highest for any month in ten years. The previous peak in this type of building was made in 1929, with a total of \$547,000,000. There is a fair chance it will be bettered this year, due to acceleration of industrial plans for meeting national defense requirements.

Because of the decline in Federal public works awards

from the unusually high level reached in 1938, total building contracts followed a downtrend from December, 1938, through May, 1940. The general trend of private building, however, continued upward; and it now constitutes some 66 per cent of all construction. On a seasonally adjusted basis, factory building has increased approximately 100 per cent since the start of 1939, commercial building 30 per cent; and residential building 25 per cent.

The factors which were unfavorable to residential building during the World War period are not present now. Two major differences are that building costs increased sharply then but are static now; and financing costs then were high and now are low. The long-term, insured, single mortgage—one of the enduring innovations of the New Deal—has proved very attractive to home buyers. Competent experts forecast an increase of 5 per cent in residential building and of 15 per cent in combined industrial and commercial building over the next six months, allowing for seasonal variation.

THE AMERICAN DOLLAR . . . Although our Government's budget has been definitely out of control for some years and none can see the end of deficits and mounting Federal debt, it is a striking fact that the prestige of the American dollar—reflected in clamorous demand for it from all quarters of the earth—has soared to an all-time high. Safety is a relative matter. As compared with the hazards confronting liquid capital in the rest of the world, especially Europe, there is infinitely greater safety in the dollar—whatever the remote threat in our fiscal outlook.

The great bulk of the gold that has come here in recent years did not come to settle trade balances or because the Treasury pays \$35 an ounce for the metal. Its movement has preponderantly reflected simply a transfer of liquid capital to the safest haven. It would have come here had our gold price been \$30 an ounce or \$25 an ounce.

Today the British Government is moving step by step to eliminate the "free" market for sterling and to increase the proportion of international sterling transactions carried out on the "official" rate which is pegged to the dollar. It is reported that the Petain Government, puppet of Hitler, is planning to detach the franc from the pound sterling and peg it directly to the dollar.

Although the final showdown is yet to come as to disposition of assets of German-occupied countries held in the United States, Germany has already moved to prevent the transfer of such funds to these occupied countries except through the Reichsbank—which means that the Reichsbank gets and retains the dollars, crediting the ultimate recipient of the transfer merely with a balance payable in his own domestic currency. The avidity with which Germany grabs all possible dollars and gold does not square with Nazi propaganda that gold will be worthless in the post-war world and that the managed paper mark will be the world currency supreme. Today the dollar is the real international currency and it is likely to remain so for some time to come.

As I See It!

BY CHARLES BENEDICT

IN THE LAP OF THE GODS

HITLER was born to arouse men out of their lethargy so that in the battle between the forces of good and evil the world would be cleansed and brought back to sanity. But Hitler believes he was born to conquer the world. So too thought the great conquerors from Alexander to Napoleon. Like Hitler also, they were nothing more than a devastating scourge which swept through the world, leaving a trail of death and destruction in their wake. They lost—defeated by the overweening demands they made on themselves and those around them—and by the very destruction they wrought.

Yet, in his ego, Hitler expects to succeed where others have failed. He counts on his superior brand of terrorism to win his battles for him. His contempt for the Democratic powers comes from his belief that soft Democracies cannot conceive and hence cannot carry out terrorism greater than his own. And that, according to "Mein Kampf" is the only thing that can defeat him. He says:

*"I understood the infamous **mental terror** which this movement (National Socialism) exercised on the population which could neither morally nor psychically resist such attacks; at a given signal a bombardment of lies and calumnies was directed towards the adversary who seemed most dangerous, till finally the nerves of those who had been attacked give out and they, for the sake of peace, bow down to the hated enemy.*

But the fools will not find peace after all. The play begins again and is so often repeated till the fear of the mad dog paralyzes them by suggestion. . . .

It is less afraid of a powerless, irresolute genius, than of a strong man of even moderate intelligence. It knows how to create the appearance as though this were the only way in which peace could be maintained; yet relentlessly it conquers one position after another, either by quiet pressure or by downright robbery. . . .

These tactics are based on an exact calculation of all human weaknesses; their result must lead to success with almost mathematical certainty, unless the other side also learns to fight poison gas with poison gas.

*The importance of **physical terror** against the individual, and the masses also became clear to me . . . mass demon-*

strations will always be accompanied by success as long as it is not met by an equally great force of terror.

Then, of course the party will cry havoc; scornful of State authority it will not call for it, so that in most cases and in the general disorder, it will reach the goal—that is, it will find some idiot of a higher official who, in the stupid hope of in this way gaining, for the future, perhaps the favor of the dreaded enemy helps to break the adversary of this universal plague."

Here we see the whole basis of calculation for Hitler's "war of nerves";— the planned frightfulness of his "physical terrorism";— the deliberate degradation of character for his "fifth column" activities—each playing a part in the scheming by which he expects to subdue all weak peoples, as well as those democracies, where liberty is construed as meaning license, and where everyone wishes to be a general and nobody wants to be a private.

But with totalitarian Russia it is something different again. Joe Stalin knows backwards and forwards all the refinements of cruelty and torture that the Nazis can possibly think of. And the clumsy, lumbering movements of the great Russian bear are certainly giving Hitler pause.

Although the Finnish adventure exhibited to Nazi satisfaction a great deficiency in Russian striking power, it is disturbing Hitler today to realize that Russian morale has evidently not been affected by this exposure. For recent events seem to indicate that Stalin has not developed the expected inferiority complex. Certainly his reaction has not been in accordance with Hitler's psychological calculations. The brutal victories of the Nazi war machine also should have further destroyed and prostrated any initiative left in Stalin.

This nonchalant Russian aggression, therefore, is very disturbing to the Nazis—as it is not according to plan. Stalin has thrown a monkey wrench into the Nazi machinery which has been running its well oiled way



up to now. The recent heavy conferences that have been going on between the Nazis and the Soviets indicate an attempt at appeasement, although it seems highly improbable that the Germans can accomplish this.

Stalin is unlikely to be diverted from his purpose, nor to accept glib promises made to meet the exigencies of the moment. He knows that this is his opportunity and he will seek to make full use of Germany's pre-occupation with the English campaign—and her desire to avoid the spread of war to the Balkans which would lay waste the lands that are the Nazi source of wheat and oil;—and destroy as well existing transportation facilities, inadequate at best.

So full of dire possibilities is the situation in the East that the German General Staff has been obliged to modify the plans of their blitzkrieg on England. I referred to this possibility in my last editorial when it became evident a fortnight ago. Since, one zero hour after another has passed without the launching of the well advertised total war.

What could only be surmised two weeks back is now becoming clear. Germany has decided that to counteract the Russian menace she must attempt to destroy the British Empire before she tackles the British Isles.

One of the first steps in the campaign was to extend her occupation of France to the Spanish border so that troops and munitions could readily be moved into Spain without being obliged to risk transportation by sea. Confident of a friendly Spain, it remained to as-

sure herself of a willing and cooperative France in her battle against Britain.

The next step, therefore, was to provide an excuse which would enable France to come in on her side, and at the same time, save the face of the present Government for posterity. This was accomplished when the British captured the French fleet.

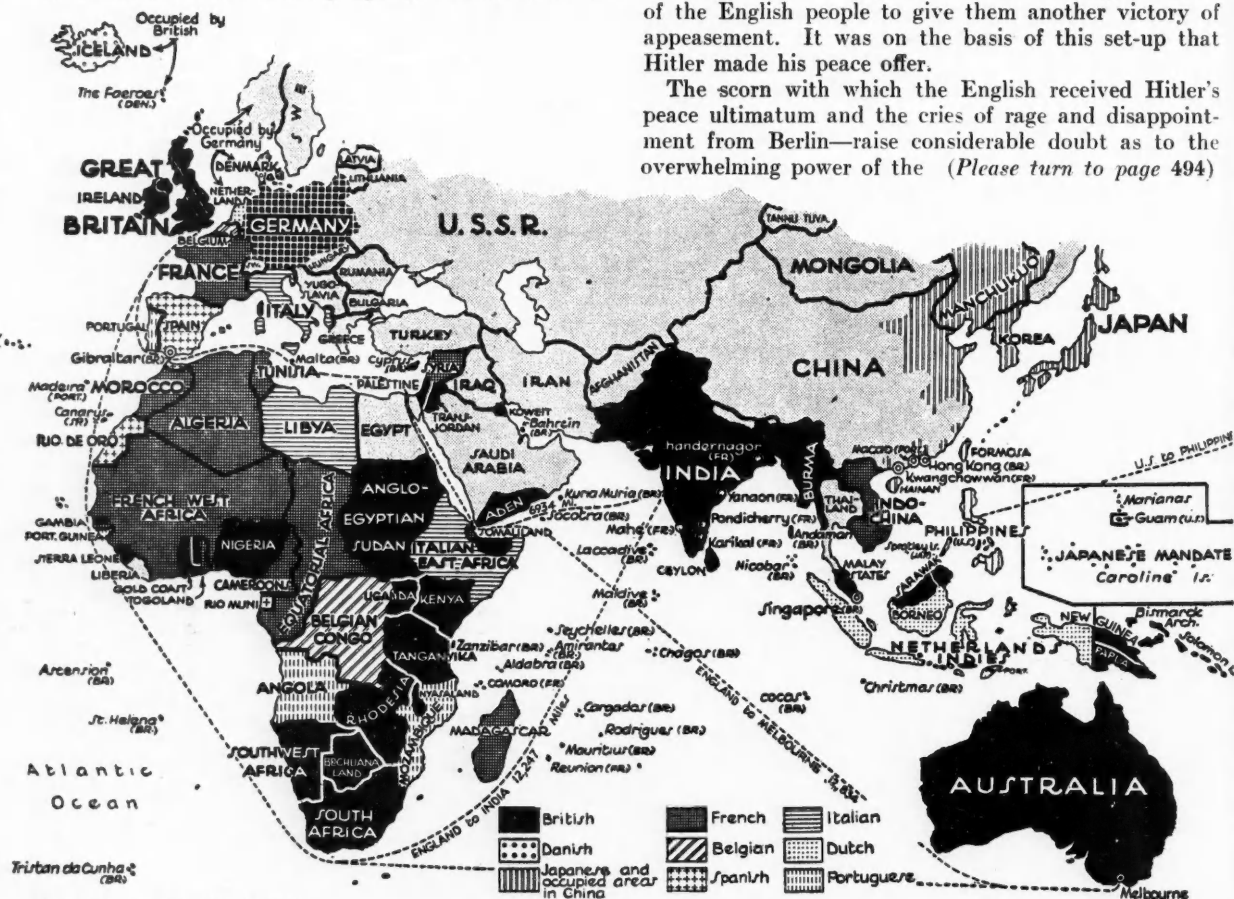
The Nazis did not make a move to prevent this eventuality, (1)—because in the narrow waters of the Mediterranean the Germans believe airplanes would be much more efficient than battleships; (2)—because they could make an additional raid and demand on French assets to compensate them for this loss.

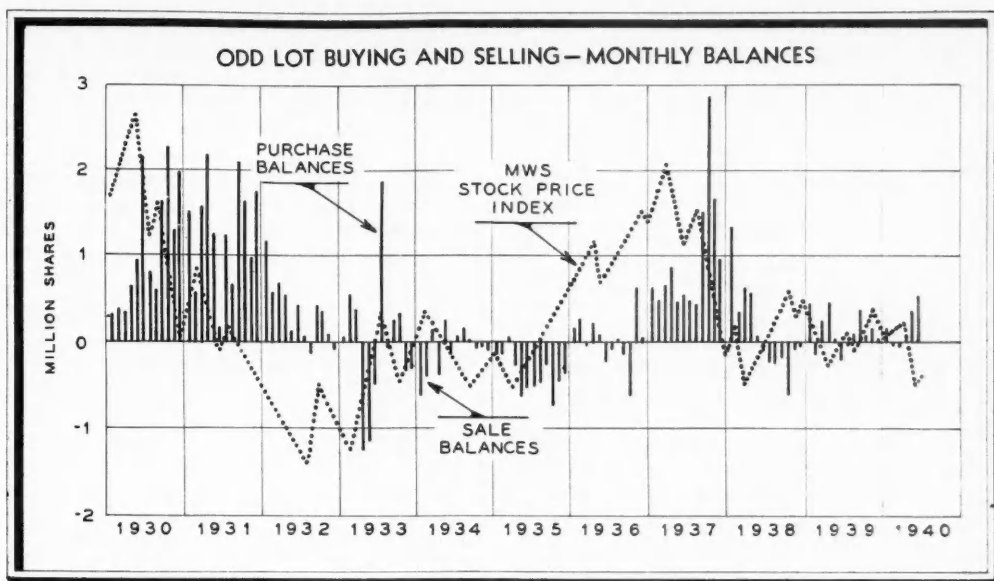
The result of Hitler's maneuvers, was to clinch control of the western Mediterranean where today an isolated Gibraltar stands between the Nazi and Axis forces in European Spain on the one shore—and strong French, Spanish, Italian colonial forces on the opposite shore in Africa.

With Italy operating in the central Mediterranean, and large well equipped French army in Syria (under General Mittelhauser) at the eastern end of the Mediterranean—and threatening the Suez Canal,—the Nazis believe they have established a battle line-up that will hem in and destroy the British Fleet and bases in the Mediterranean,—they hope with this stroke to open the way to the British Empire in Africa with its untold wealth in raw materials, foodstuffs and gold!

If they succeed, they count on the destroyed morale of the English people to give them another victory of appeasement. It was on the basis of this set-up that Hitler made his peace offer.

The scorn with which the English received Hitler's peace ultimatum and the cries of rage and disappointment from Berlin—raise considerable doubt as to the overwhelming power of the (Please turn to page 494)





Decisive Market Phase Ahead

Record low market volume is prelude to more dynamic action before many more weeks go by. Given a favorable shift in war news, the break-away should be upward. Meanwhile caution must remain the watchword.

BOTH political conventions are out of the way, hope of election results which will please business men and investors appears at least better founded than at any time since 1928, business activity is at a high level, earnings being shown by second quarter statements are generally good—but the stock market has put all such matters pretty much out of mind for the moment to concentrate its hopes, fears, doubts and guesses very largely on just one thing: namely, the long awaited Battle of England.

Both as regards price and volume changes, response to Mr. Roosevelt's third nomination was completely apathetic because it contained no element of surprise. Hitler's "last warning" to Britain to make peace on his own "reasonable" terms or else face Germany's full striking power was followed by only a fractional dip and a minor increase in volume of transactions.

As the chart line of the industrial average shows, the market for three weeks has been creeping sideways along an exceptionally narrow trading range, with a tendency toward progressive shrinkage of volume. To find comparable dullness one has to thumb the records back for

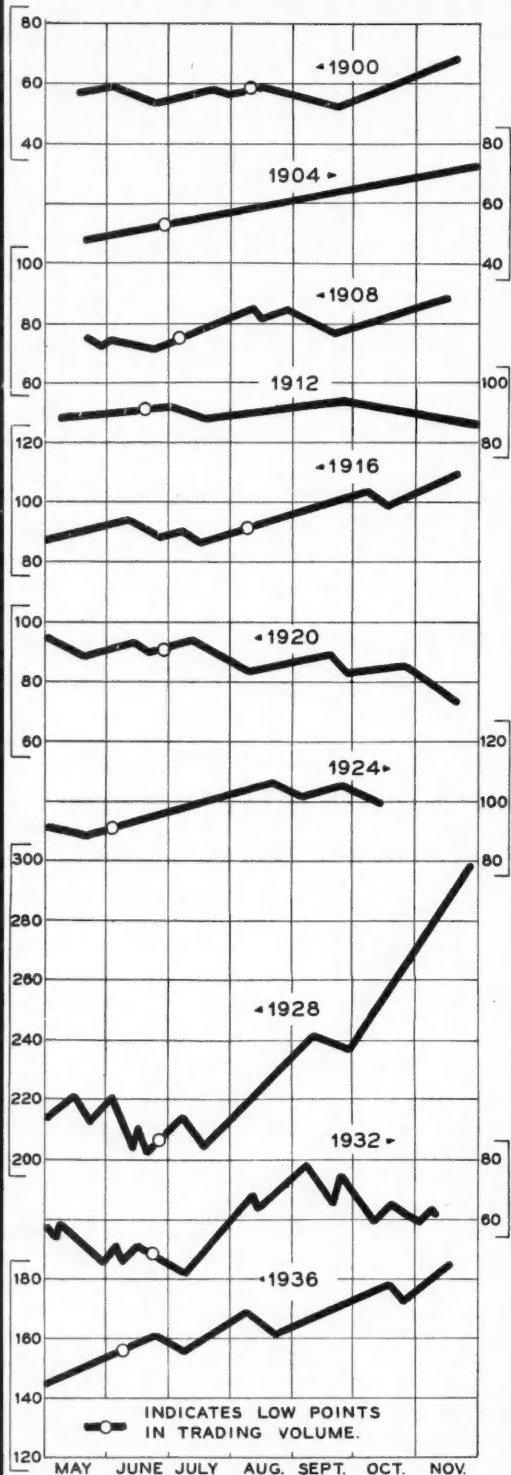
BY A. T. MILLER

twenty years and even then the similarity is more apparent than real for there are a great many more shares of stock listed now than twenty years ago. Taking this into account, it is probably no exaggeration to say that turnover is at an all time record low.

Often extremely low volume has been a characteristic phenomenon of a market which has completed a major decline and established the technical foundation for important advance. It may possibly be so in this instance. As observed here before, the worst war contingencies have had full consideration for some time, no additional European disaster could really be a major surprise and it seems logical to hold that the market is in a position to respond more dynamically to any shred of good news than to bad.

Against these considerations is the fact that each of the two broad swings in the market since last August was geared 100 per cent to war news; the probability that European events will remain the dynamic factor for additional time to come; and the apparently rational conclusion that, as investors and traders hold their breath while waiting for some clarification of the uncer-

ELECTION YEAR MARKET SWINGS



tainty centering on England, ordinary technical indications have much less than usual value.

Certainly it would seem somewhat improbable that the market can have any worthwhile advance unless and until potential security buyers are willing to risk their money on a belief or a hunch either that Hitler will not launch a full scale attack on England or that any such attack will prove a failure. As for this, we see no basis for conviction either way as this is written, and we have no hunch.

In our opinion, most people who would like to enter the market on the buying side are waiting for two things: (1) to see how the market meets the test of an all-out assault on England when and if it comes; and (2) to get some idea of the quality of the British resistance if and when it is put to the full test. A possible alternative or simultaneous war development that may have to be allowed for is a German-Spanish-Italian attack on Gibraltar.

If Hitler's Strategy Shifts

For what it may be worth, it is most interesting to note that a dispatch to the *New York Times* last Saturday from Bucharest, Rumania, by Walter Duranty reported heavy German troop movements to the Russian borders and equally heavy Russian troop movements toward areas where any future German attack would come. Mr. Duranty added:

"The Rumanians who have learned a singular astuteness from their bitter past, are beginning to wonder whether the invasion and conquest of Britain will prove much easier for the Germans than for Napoleon and whether history may not repeat itself. Napoleon took his grand army from the narrow sea he could not cross and drove it eastward to Moscow."

Naturally we can not vouch for the realism of this hint—but if the Nazi pressure should shift from England to Russia either because Hitler's generals had convinced him that the invasion of England was too much of a gamble or because initial efforts at such invasion indicated failure—in that case we could see this market going places in a hurry.

With this article we present two special graphs of timely interest. For those who still have some faith left in market precedents they provide two clues which, unfortunately, point in opposite directions.

The first chart shows odd-lot dealings on balance since 1930 and shows further that this particular consensus of market opinion has proven consistently wrong. To cite but several older examples, odd-lots were sold on balance in 1924, 1925 and part of 1926 but were bought in October and November, 1929, to the heaviest extent on record. In more recent years a somewhat similar consistency of error was shown. Since odd-lot purchases exceeded sales in every session from May 20 through July 8, anyone respecting this indicator would have to be leery of the bull cause.

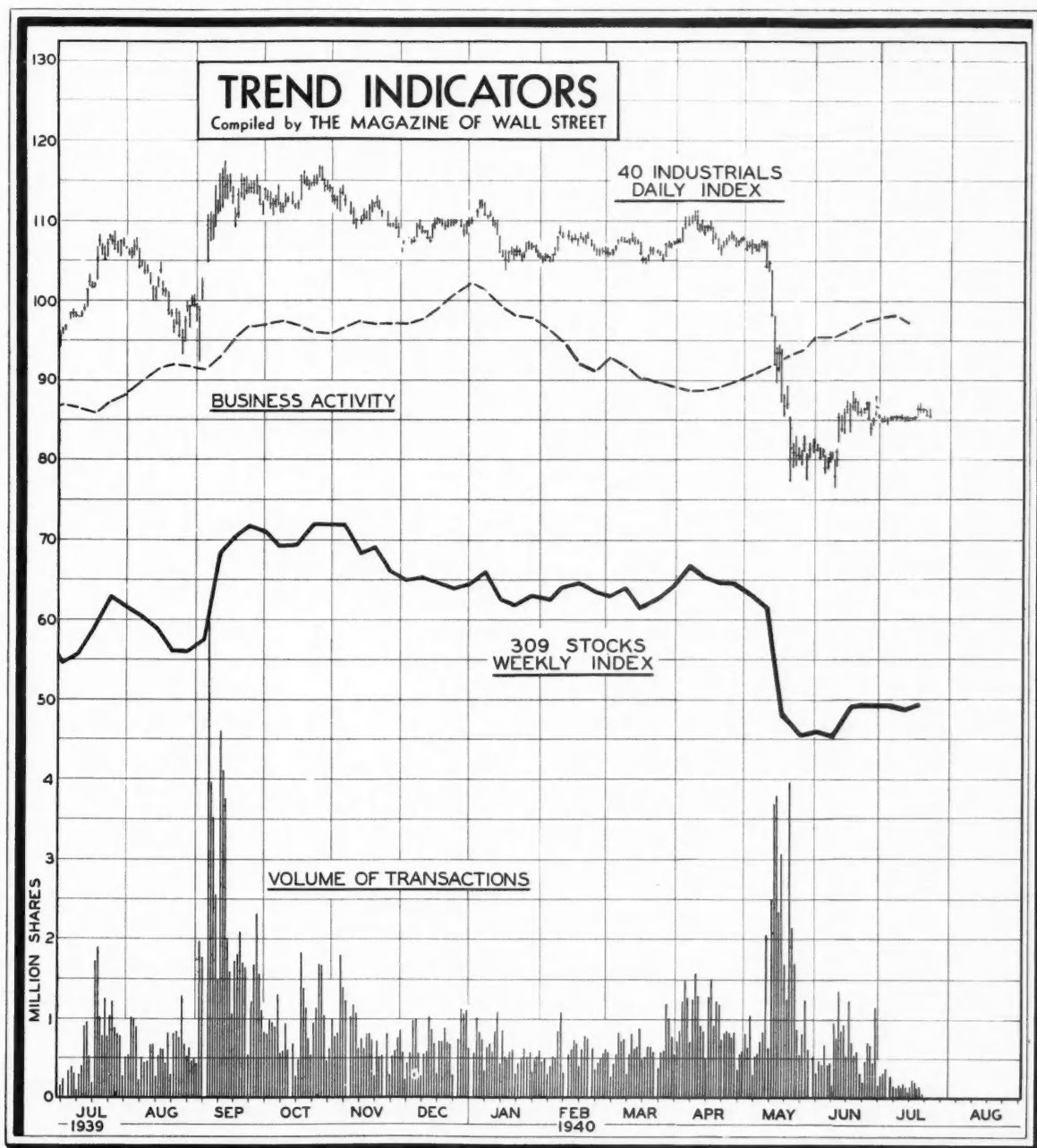
Yet while the normal assumption would be that odd-lot buyers have been taking on stock that better informed persons have been distributing, this may not necessarily be true in the present instance since an important portion of such distribution as is going on may be neither informed nor wise but simply forced: that is,

foreign liquidation reflecting necessity rather than judgment. A reminder that such liquidation is present is given us by the U. S. Steel quarterly report of foreign holdings, showing very large British selling of this stock during the second quarter.

The second chart shows the market record in ten Presidential election years since 1900. The low spot in volume has consistently come in late spring or summer, coinciding with the period of maximum uncertainty as to candidates, platforms, issues and trend of public opinion. Later on market activity picks up again as key political issues take shape and something more than blind guesses on the election's result becomes feasible. Moreover, in each of these years, excepting one, the course of prices

has been upward from the dull spot into October or November.

While less than usual faith can be pinned to any precedent this year, past habits as to trend of volume may well be repeated because, between now and autumn if not sooner, it is probable that we shall have some clarification not only of our political outlook but also of the acute uncertainty now centering on the fate of England. But while any kind of answer—good or bad—on the latter question will increase activity, not any kind of answer will confirm the second part of the precedent that calls for higher prices by late summer or autumn. Something at least more pleasant than a complete Nazi victory over Britain is called for. —Monday, July 22.





Wide World Studio

Can Willkie

BY

ROOSEVELT and Wallace, or Willkie and McNary? In fourteen weeks the voters will decide.

These fourteen weeks will embrace one of the most vigorous and perhaps one of the bitterest political campaigns in a generation. The outcome cannot safely be predicted now. At present it looks pretty even, but many things may happen, particularly abroad, which could tip the scales.

On Roosevelt's side is his own proved ability as a vote-getter, his prestige as a world figure, support of millions who feel his program has helped them, his position as President to shape and time events to his own advantage, and the political power—"machine"—always possessed by an Administration in office and skillfully built to great strength by the New Dealers.

On Willkie's side is a brand-new personality which gives promise of having equally good vote-getting qualities, an immeasurably large resentment against the New Deal, a promise of more efficient and business-like administration, and the American tradition of rotation in office, and opposition to a third term for any President no matter how great the emergency.

The issues are scarcely discernible from the platforms, both of which are weasel-worded and contain many planks with striking parallelisms. The big issue is the New Deal—should its philosophies and methods be continued unchecked. There are many sub-divisions of this issue, and unrelated matters are being brought in, but this is and will remain the primary issue.

Roosevelt is the personification of the New Deal and Wallace is his most faithful understudy. Their nominations were engineered by the New Dealers. What is left of the pre-Roosevelt Democratic party has been squeezed out completely, and if Roosevelt is continued in office it will be an unquestioned mandate for extending and expanding everything the New Deal has been doing. If Roosevelt is defeated it will mean a sharp reversal of the trend. Willkie could not, if he wished, impose a completely reactionary regime, and the New Deal features generally recognized as sound social gains will be kept perforce and by choice.

Many false issues are being manufactured for this campaign. Democrats are painting the Republicans as the party of black reaction which would bring back conditions of 1932. But the G.O.P. has changed since then and Willkie is not Hoover, and such tactics will sway few voters. Now the Republicans have some constructive things to offer and the Democrats are very much on the defensive and will be kept so.

There are two power issues in this campaign—electric and governmental. Each side would like to ignore one and stress the other. Because Willkie fought T V A to save his stockholders from utter loss, New Dealers assert he would tear down public generating plants, raise electric rates, and sanction the Insull type of holding company finance. Willkie's answer is so forthright and simple that it ought to eliminate electric power as an issue, but the past economic and political sins of the utilities which are being smeared on to him do constitute something of a handicap.

Willkie's power issue is the tremendous growth of governmental power centering in the President, power which affects the daily life of every citizen. Roosevelt wants to soft-pedal this, but the dangers of this kind of power will be dramatized to the voters in a way which should have telling results. The revolt in Congress the last couple of years against executive power is a clear indication that the country favors restraint in government. Willkie has a clear advantage here.

The smear campaign against Willkie is under way, but this is a game that two can play if necessary. The personal and political histories of many of the New Deal henchmen make unsavory reading, and if it comes to pitting the self-made Willkie's life story against that of the aristocratic Roosevelt, American tradition teaches that the advantage is all Willkie's. Critical observers report that the public mood does not favor a smear campaign.

The existence of an unwritten rule against a third term for any President was ignored by the New Dealers. The party which boasts of breaking precedents did not even mention that it is breaking this one. But millions



ie Be Elected?

BY E. K. T.



Wide World Studio

of people feel strongly on this subject and many of them will refuse to vote for Roosevelt for this reason alone. No one knows how many, but this factor is an exceedingly large handicap to Roosevelt. His excuse that he was drafted against his wishes looks silly in the light of his actions during the past year and the events at the convention. Many who might have supported him had he been candid enough to admit he wanted to run have soured on him because of the patently and clumsily framed "draft" business.

Competence in government is Willkie's strongest talking point. It is virtually a common axiom that New Dealers are poor administrators, and Willkie's promise of a business-like administration should find a wide response at this time when efficient government and industrial mobilization are so vital to national defense. To offset this, Roosevelt brags he pulled business and finance out of the hole it got itself into in 1932, but the current reaction against the anti-business feeling seems to be running too strongly for Roosevelt to stop it this way. Roosevelt figures his present reliance on business men to handle the defense program will cut the ground from under Willkie's argument, but it may prove a boomerang if the public feels we should have more of this sort of thing and assurance it will be permanent.

On foreign policy the platforms and candidates take almost identical stands, so there should be no campaign issue there though Roosevelt is trying to make one. His denunciation of "appeasers" seems rather strained when his own platform committee yielded to Democratic isolationists. To the extent that Roosevelt tries to picture himself less isolationist than the Republicans he raises just that much more opposition from those who fear he is planning to put us into war after his re-election.

Both Wallace and McNary were put on the tickets to get the farm votes, and to a large extent they will offset each other. Wallace's advantage is that the farmers know he is the man who has been doling out their funds and he has a whole army of employees to act as a political machine in spite of the Hatch act. This is also Wallace's weakness among those farmers who dislike this system.

On the federal budget the New Deal is completely vulnerable, but it won't be allowed to evade this issue. Now that new taxes have been added, more are on the way, and it is realized that we enter a costly defense program with an already over-large debt, the issue of government extravagance should count much more than it did in 1936. The Republicans' only trouble here is in trying to specify where they will economize without turning against them huge groups of beneficiaries of federal spending, but Willkie certainly has the advantage on this subject.

A third-party threat or an open split in the Democratic party, which would certainly throw the election to the Republicans, has not appeared, but in the Democratic ranks there are thousands of anti-New Dealers, conservatives of various degrees, and persons constitutionally opposed to a third term. Willkie expects a big parade of these to join him. Many have already done so openly; many more will vote for him quietly; still others will simply not vote for Roosevelt. So far the known extent of this shift is not sufficient to make Willkie's election a sure

thing, but it is a very potent factor and one which will grow if properly nursed.

The indignation of the old-line Democrats has been heightened by what they consider to be the "shabby" treatment of the National Chairman, James A. Farley and this feeling will probably not be assuaged if the rumored resignation of Mr. Farley from the position of Postmaster General becomes effective prior to the election. And what is more remarkable than the growing deflection of "life-long" Democrats to the Willkie ranks is the fact that the President's latest attempt to shatter tradition is being assailed from many pulpits as well as the public as represented by the average man on the street.

Many factors indicate that Willkie has much more than a fighting chance to dislodge the grip on the voters heretofore held by Roosevelt's personality and the New Deal political machine. Many top-notch political observers are already predicting a Willkie victory and all agree it will be a notable and hard-fought campaign.



Changing Profit Perspective

In New Industrial Outlook

BY WARD GATES

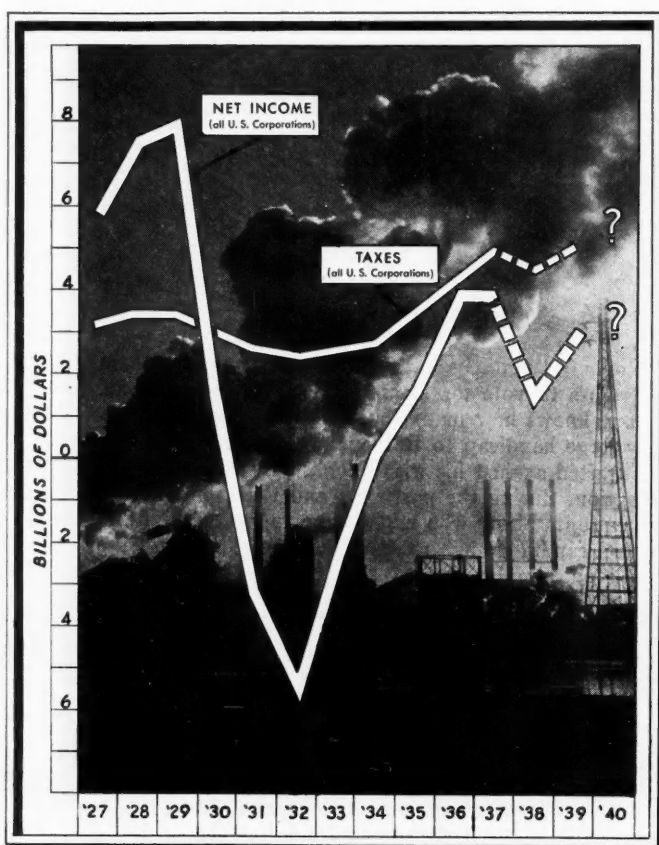
PERIODS in which business is active, but with the outlook for earnings and dividends abnormally uncertain, are relatively rare but not by any means unprecedented.

Even in one early phase of the great boom of the '20's one could find in some sections of the financial press gloomy—and mistaken—forebodings of "profitless prosperity." Similar forebodings—again largely mistaken—were common late in 1934, shortly before a sustained and major rise in average corporate earning power got under way.

With more solid reasons than applied to either of the above periods, investors today are highly uncertain as to what this year's business activity—certain to be relatively high—will yield in net profits. They appear equally dubious as to the benefits that may derive to them as security holders when industrial activity attains a sustained level at capacity, as it will probably do within 1941 as the armament program swings into full vigor.

Because of these doubts, together with the monumental uncertainties as to the outcome and aftermath of the war and the consequences of an unprecedented domestic political campaign, we see current corporate earnings and dividends valued in the market on a remarkably sober—even downright pessimistic—basis. We see average equity values, in ratio to prevailing business activity, 20 per cent lower than at the start of this year and some 60 per cent lower than at the top of the market in 1937.

The tangible problems giving rise to today's chief uncertainties—what kind of excess profits tax bill will be written by Congress, which party will win the election, the fate of England and the British fleet—are vitally important. But it is the uncertainty itself, rather than the potential happening, which is usually the most deflationary influence—shaping the state of mind which induces investors and speculators at one time to put a lower value on a given stock earning \$4 a share than



Charles Phelps Cushing Photo

at another time when the same stock is earning \$2 a share.

Usually the worst proves to have been discounted when it happens. No probable tax bill is now likely of itself to influence earnings and values more than has already been allowed for. Since armaments under any administration will be the dominant long-range business influence, the outcome of the election can hardly be a decisive business factor. Unfortunately, we cannot be equally assured that business, earnings and values are fully insulated against what may develop in Europe over the next few weeks or months.

Beyond much doubt, this is the real key uncertainty, in comparison with which the others are relatively minor. If it were eliminated in a manner which reduced American fear of the potential Nazi threat, the stock market would quickly put out of mind much of its fears of profitless prosperity, and earnings considerably lower than those likely to be shown this year would support substantially higher values than now prevail. A frightening peace—dictated by Germany—would be something else again.

On the other hand, as distinct from market effect, any kind of peace—should it come within the next several months—would be in some degree deflationary on business activity and, therefore, on earnings.

The dynamic factor in the recent sharp economic expansion has been heavy forward buying, especially of capital goods. In major degree it represents not actual armament activity but anticipation of future armament activity. It is very similar to the forward-buying boomlet touched off by outbreak of war last September. The latter was followed by corrective recession, running through the forepart of this year. While orders recently placed should maintain production at or moderately above the current level for additional weeks, a downturn of at least moderate proportions—say 10 points in the Reserve Board index—seems likely to set in before we enter the fourth quarter.

This general appraisal is not only that of the writer but seems to be the approximate consensus of private and Federal economists who have a much better than average record of accuracy in business forecasting. It is predicated partly on the well-founded conviction—publicly voiced by the Federal Bureau of Agricultural Economics—that it will be "many months" before volume manufacturing operations on defense equipment of the heavier types can get under way.

Moreover, this view may possibly be on the optimistic side, depending upon whether Britain does or does not continue the war by successfully withstanding the Nazi attack or blockade. The point is that, if it came at a time when our business position had been made temporarily vulnerable by fast advance and before actual armament production has assumed large proportions, any sudden termination of British war orders could do considerable damage, reacting instantly on prices and the flow of new orders.

To cite a single, but important, example, the volume of steel going today into domestic armaments is a very small fraction of that accounted for by the combination of private demand and British war orders. The sharp recent rise in steel activity has been a major factor in the recovery shown by all composite business indexes. A considerable reaction here, however temporary in terms of weeks or months' duration, would have proportionate adverse effect on the business indexes.

Industries which have spurted most sharply since April would be the most vulnerable. Notable exceptions are shipbuilding, aircraft and machine tools, which are assured of capacity operations for an indefinite time to come, without reactions.

As a short-run contingency, a possible end of British war orders merits more heed than possible acceleration of Nazi efforts at economic penetration of the Western Hemisphere, especially Latin-America. Although it is naturally desirable that we go to great effort to expand our trade potential south of the Rio Grande, for perspective it is perhaps worth noting that our present annual export volume to all of South America is less than the equivalent of the net output of our economy for two working days. Our trade prospect in a post-war world would necessarily be much bleaker all around if Germany won a complete victory in this war than otherwise, but in no event can it look bright. There is strong evidence now that Britain would be inclined to stick to

government-regimented foreign trade methods, essentially along German principles, if she emerges from the war as any kind of a going economic empire.

Although volume is usually the most important variable determining industrial profits, even if we could be sure of exact volume for the rest of the year we could not arrive at any statistical estimates of second half-year earnings potentialities by projecting second quarter results or by any other method. Indeed, the interim statements now coming to hand have to be interpreted with unusual care because in many instances the method by which the higher corporate taxes recently imposed has been handled is not apparent.

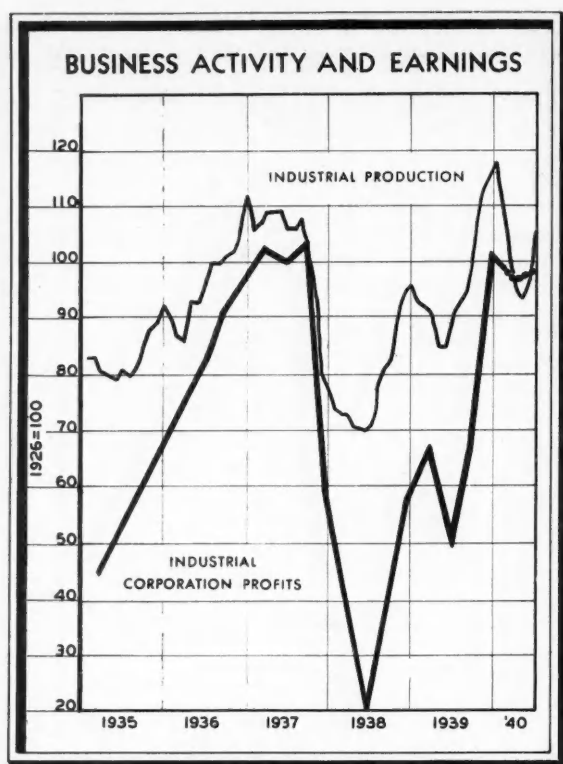
While the increase, for most companies, from 18 per cent to 19 per cent in normal income tax seems small, it amounts to more than a 5 per cent increment, and on top of this is the 10 per cent super-tax. In many instances, the setting aside of increased taxes explains why second quarter profits reported to stockholders were a bit less than in the first quarter, despite higher business activity in this period than in the first quarter. This is especially so in the case of companies which also charged to second quarter earnings the increased taxes retroactively applicable to first quarter earnings. Other companies may elect to make this adjustment in their year-end accounting.

This is only the beginning of the dilemma, however, as we speculate on second half-year earnings and on possible earnings for the full year. There seems to be

Companies likely to show large earnings gains for the year as a whole include the following:

| | 1940 1st Half | 1939 1st Half |
|---------------------------------|------------------|------------------|
| Republic Steel..... | \$6,449,000 | \$1,083,000 |
| Libbey-Owens-Ford..... | 5,176,000 | 2,654,000 |
| Caterpillar Tractor..... | 3,509,000 | 2,313,000 |
| Westinghouse Electric..... | 9,837,000 | 6,338,000 |
| Eaton Manufacturing..... | 1,908,000 | 1,285,000 |
| Allegheny Ludlum Steel..... | 1,974,000 | 354,000 |
| Monarch Machine Tool..... | 662,000 | 173,000 |
| New York Air Brake..... | 832,000 | 216,000 |
| General Electric..... | 25,981,000 | 16,370,000 |
| Beech-Nut Packing..... | 1,461,000 | 1,094,000 |
| Harbison-Walker..... | 939,000 | 398,000 |
| American Brake Shoe..... | 1,226,000 | 919,000 |
| Rustless Iron & Steel..... | 633,000 | 402,000 |
| Sutherland Paper..... | 437,000 | 238,000 |
| Texas Gulf Sulphur..... | 4,500,000 | 3,264,000 |
| Chesapeake & Ohio..... | 15,714,000 | 5,399,000 |
| Mathieson Alkali..... | 827,000 | 336,000 |
| Johns-Manville..... | 1,884,000 | 1,203,000 |
| National Malleable & Steel..... | 618,000 | 318,000 |
| Sharon Steel..... | 388,000 | (D) 140,000 |
| Superheater..... | 419,000 | 266,000 |
| Bliss & Laughlin..... | 348,000 | 253,000 |
| North American Rayon..... | (a) 1,024,000 | 616,000 |
| General Time Instruments..... | (a) 582,000 | 167,000 |
| Mead Corp..... | (a) 681,000 | 157,000 |
| Tubize Chatillon..... | 702,000 | 303,000 |
| Van Norman Machine Tool..... | (a) 246,000 | 123,000 |
| Atlantic Refining..... | 5,266,000 | 1,353,000 |
| Westinghouse Air Brake..... | 3,304,000 | 859,000 |
| Acme Steel..... | 1,045,000 | 599,000 |
| Budd Manufacturing..... | 1,006,000 | 274,000 |
| Container Corp..... | 1,128,000 | 32,000 |
| Cutler-Hammer..... | 742,000 | 243,000 |
| Doehler Die Casting..... | 593,000 | 263,000 |
| Hercules Powder..... | 3,292,000 | 2,269,000 |
| Remington Arms..... | 1,219,000 | 144,000 |

(a)—24 weeks ended June 15. (D)—Deficit.



virtual agreement at Washington that some kind of excess profits tax will be enacted this autumn, that the levy is likely to be fairly stiff—since the object is to raise more Federal revenue as well as to “take the profits out of war and armaments”—and that the tax will apply to 1940 earnings.

Such being the case, no interim earnings reported for any period this year can be taken at face value because they will be subject to probable substantial adjustment for increased taxes in the year-end reports to be made up after the exact requirements of the coming tax change become known. The possible alternative forms of this tax have been thoroughly discussed in a previous special article in this publication and do not here concern us. Suffice it to say that this new factor not only clouds the earnings outlook for the rest of the year but also to some extent clouds the dividend outlook. When corporations have not even a rough idea of what their tax liability may be at the end of the year, they will naturally tend to lean somewhat to the conservative side in distributing cash.

Looking only to the remaining months of the year—this being rash enough in the present uncertain world—no significant squeeze in industrial earning power seems likely to arise out of changed relationships among the factors of unit labor costs, costs of raw material and prices of finished goods.

Tending to raise average unit labor costs in manufacturing industry is the shortage of some types of skilled workers and resultant over-time pay in the industries where capacity is being taxed. Against such influences, a fast rise in production tends to lower unit labor costs just as a rapid reaction in output tends to raise them. Thus unit labor costs increased substantially

during the first quarter, with industrial recession the general rule, but have since flattened out with the pick-up in volume. They appear likely to average moderately higher for the second half-year than last year.

Against this, the current evidence is against any rise in raw materials costs as far ahead as can be seen and the prevailing spread between such costs and average prices of manufactured goods gives processors no cause for complaint.

On the average, the half-year earnings statements, of course, show rather spectacular percentage gains over the first half of 1939. In no event can such gains be carried through the second half-year, for comparison in this period will be with the best half of 1939, whereas the statements now being issued compare with the poorest periods of 1939.

The composite earnings performance of 200 leading industrial corporations last year represented a gain of about 63 per cent over the showing in the poor year 1938. Even if taxes were unchanged, we could count ourselves lucky if the same compilation this year shows a gain of as much as 18 or 20 per cent over 1939 and, allowing for increased taxes, it may well be only 10 or 12 per cent above 1939.

It is worth while to take a brief look at some of the longer term changes in taxes and business earning power, as partially shown by the chart at the start of this article. Although the figures are necessarily belated, U. S. Treasury statistics on gross revenues and net income of all corporations—more than 470,000—give a perspective that cannot be otherwise had.

In 1937, best year since 1929, only 40 per cent of all active companies had any net income, the rest being in the red. Total gross of all companies was \$139,761,000,000, which compares fairly closely with gross of \$143,241,000,000 in the pre-New Deal year 1927—but net income, excluding intercorporate dividends, was only \$3,872,000,000 or 34 per cent less than in 1927, while total taxes paid were \$4,942,000,000 or 57 per cent greater than in 1927.

Behind the Figures

Behind these figures, however, there is still more illumination for the investor. If we break them down we find a vastly superior record for manufacturing companies, as contrasted with non-manufacturing companies. Thus, gross of all non-manufacturing companies in 1937 was less than 3 per cent under 1927, but net income was 58 per cent less and total taxes were 40 per cent more. Manufacturing companies had gross about 3 per cent under 1927, or closely in line with non-manufacturing companies, but net income was less than 5 per cent under 1927, although total taxes were up approximately 100 per cent. In 1936, manufacturing companies earned approximately the same as in 1927, although gross revenues were 11 per cent less.

This contrast emphasizes the remarkable flexibility demonstrated by American manufacturing industry through a most difficult period in absorbing a doubled tax bill and at the same time showing—given anywhere near normal volume—a ratio of net to gross approximately identical with the average of the prosperous '20's.

The record has a practical (*Please turn to page 492*)

A Balanced Portfolio of Six Stocks

Careful Selection and Diversification to Meet
the Hazards of the Times

BY J. S. WILLIAMS

ONLY in the dark days of 1932 have investors been faced with so many confusing factors, for which full allowance must be made in all investment undertakings, as exist at the present time. Moreover, any attempt to evaluate the more important of these factors in terms of investment security and dependable income invariably resolves into a large question mark. How long will the war last? What will be the fate of England? Who will be the next President? Will our defense program continue even in the event of an early end of the war in Europe? How will our huge defense program affect each major industry? Is the proposed tax program only the beginning?

It is only too obvious that the answers to these questions will have a vital bearing on all investment values. It is equally obvious that the answers are for the most part outside the scope of forecast and prediction.

In the face of this situation what then is the best course for an investor to take? Sell all of his securities and take to the storm cellar of cash for the duration of the emergency? Such a course might have much to recommend it to an investor concerned solely in safeguarding dollars and cents capital. But for many investors it offers only a partial solution, in that cash yields little or no return.

A sensible and practical solution designed to meet today's conditions would be for every investor to examine the securities which he owns, primarily with a view to ascertaining whether the issues comprising his portfolio are well balanced—not merely diversified among various companies and industries, but balanced in such a manner as to give recognition to the current realities and to safeguard against the uncertainties of the near future.

It would be unwise, solely because the United States is committed to a \$15,000,000,000 defense program, to concentrate common stock holdings in the shares of companies chosen solely on their prospects of receiving large armament orders. Many such com-

panies may be in for a period of profitless prosperity. On the other hand the prospects for those companies manufacturing luxury and semi-luxury products, under the restrictions imposed by a virtual wartime economy, are open to question. Many manufacturers of various consumers' goods may find themselves caught in the pincers of rising costs and higher taxes. A similar dilemma may be faced by several divisions of retail trade. The foregoing merely hints at some of the problems which may arise in the near future.

It is not here assumed that an investor can reasonably hope to provide 100 per cent protection against the contingencies which lie ahead. What can be done, however, is to reduce individual risks to a practical minimum. This can best be achieved by limiting common stock investments to the shares of a selected group of companies which on the basis of known facts and a convincing

Industrial Balance in an Investment Portfolio

Dow Chemical—Fast-growing chemical unit. Leading domestic producer of important magnesium metal. Also has important stake in synthetic rubber.

General Foods—Leading distributor of packaged foods. Frozen foods provide growth factor. Characterized by stable earnings and dividends.

Sears, Roebuck—Foremost mail-order and department store retail unit. Would share substantially in any improvement in employment and public purchasing power.

Abbott Laboratories—A leading manufacturer of pharmaceutical drug products and fine chemicals. Strong growth factor unlikely to be hampered by war economy.

Ex-Cell-O—Manufacturer of machine and precision tools. Shares afford an indirect stake in aircraft and diesel industries.

du Pont—Company's shares offer wide industrial participation, while numerous products, such as Nylon and Neoprene (synthetic rubber), provide strong growth factor.

background can be relied upon not only to give a proper degree of balance to an investment portfolio, but which can also be counted upon to display better-than-average ability to cope with any problems now conceivable.

The possibilities in that direction are exemplified by the six issues selected here for brief discussion and analysis. It is not implied that the possibilities for portfolio balance are by any means limited to these six issues, and a number of alternative suggestions are listed.

Dow Chemical Co.

The past record and general background of Dow Chemical are typical of the chemical industry as a whole. This company has pioneered in the development of many new products and processes which have found a waiting market. Favored by the strong fundamental factors inherent in the chemical industry, the company has been able to operate profitably even under adverse conditions.

The company's list of chemical products numbers well over 300. However, activities may be divided roughly into three major divisions—pharmaceutical and fine chemicals, industrial chemicals and magnesium metal and metal alloys. Dow is the leading producer of bromide and magnesium and has also developed a magnesium alloy known as "Dow-Metal," the lightest available metal. Completion of a new plant now in the course of construction at Freeport, Texas, will double the com-

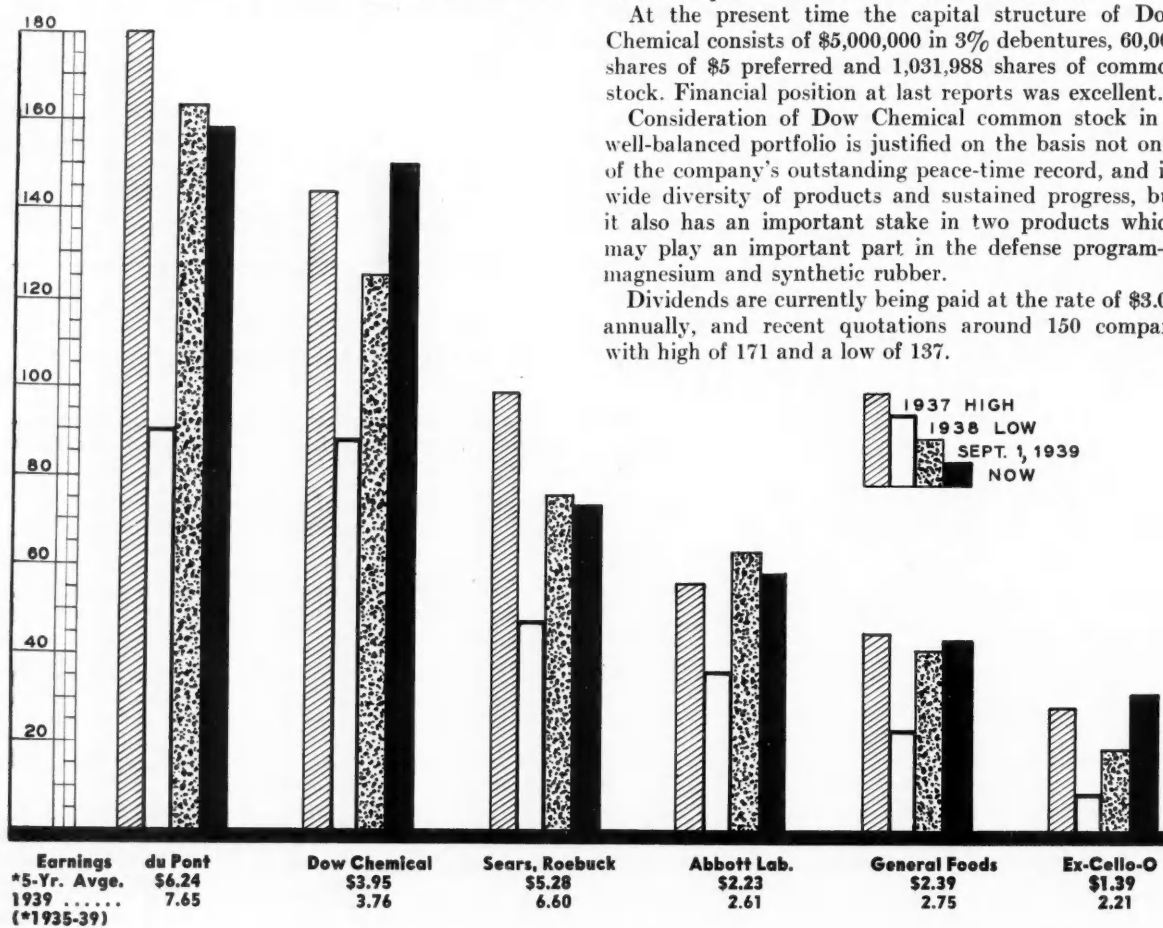
pany's output of magnesium, bringing it to an annual capacity of around 25,000,000 pounds. Dow is virtually the only important producer of this metal in the United States. Particularly interesting in the present setting is the fact that the company is the only producer in the country of styrene, which, in addition to being one of the fastest-growing plastics, is one of the two principal ingredients of Buna synthetic rubber. Under development by the company is a plastic known as vinylidene, having tensile strength of 40,000 pounds per square inch. Among the principal users of the company's products are the petroleum industry, plastic manufacturers, and rayon, textile, dye, leather and rubber industries.

In 1929, net income of Dow Chemical amounted to an estimated \$2,437,000, and a decade later (year ended May 31, 1939) net income had reached a figure of \$4,178,485, an amount exceeded only by 1936 net of \$4,383,717. At no time during this period did the company operate at a loss, and dividends have been paid to common stockholders without interruption since 1915. The company's report for the year ended May 31, 1940, has not been issued as yet, but it is a safe assumption that earnings in this most recent period will establish a new high record. Net for the nine months to February 29, last, of \$5,495,945 was equivalent to \$5.11 a share, after allowance for dividend requirements on the 5% preferred stock. In the corresponding period of 1939, net was equal to \$2.30 a share for the common.

At the present time the capital structure of Dow Chemical consists of \$5,000,000 in 3% debentures, 60,000 shares of \$5 preferred and 1,031,988 shares of common stock. Financial position at last reports was excellent.

Consideration of Dow Chemical common stock in a well-balanced portfolio is justified on the basis not only of the company's outstanding peace-time record, and its wide diversity of products and sustained progress, but it also has an important stake in two products which may play an important part in the defense program—magnesium and synthetic rubber.

Dividends are currently being paid at the rate of \$3.00 annually, and recent quotations around 150 compare with high of 171 and a low of 137.



General Foods Corp.

General Foods Corp. is one of the ranking processors and distributors of a wide variety of packaged foods. Some 80 food products are put out under the company's name, including such well-known items as Maxwell House Coffee, Jell-O, Postum, Post Toasties, etc. Of all the company's major divisions, however, the fastest growing is Birdseye Frosted Foods. At the end of 1939, 5,798 retail stores were handling the company's frosted food products, compared with 4,059 at the end of the previous year, 2,800 at the end of 1938 and 20 in the spring of 1930. Although sales of Frosted Foods have not yet contributed steadily to the company's earning power, distribution has reached a point where a limited amount of national advertising is practicable and overhead costs are being spread over an increasing volume of sales.

The past ten years for General Foods Corp. have been marked by consistent progress, achieved largely through substantially increased distribution effected through a steady reduction in the prices paid by consumers. In 1939, consumers paid an average of 35 per cent less than they did in 1929, while the company sold nearly twice as many pounds of food products in the latest year, as in 1929.

The company's profits during the depression were exceptionally stable, having amounted to \$1.97 a share in 1932 and having fallen below the \$2 mark since then only in 1937, when \$1.75 a share was earned on the common stock. Last year the company's dollar sales set a new high record, with earnings of \$15,118,063, or the equivalent of \$2.75 a share, the highest reported by the company since 1931. Last year's results compare with \$2.50 a share earned on the common stock in 1938. The upward trend in both sales and earnings has been well sustained into the current year and in the initial quarter, profits were equivalent to 82 cents a share for the common stock, as contrasted with 74 cents a share earned in the same three months of 1939.

Over the past several years dividends have been paid at the rate of \$2 a share annually and last year an extra of 25 cents was paid. Dividends have not fallen below \$1.80 a share at any time since the late 1920's.

Capital structure consists of 150,000 shares of \$4.50 cumulative preferred stock and 5,251,440 shares of common stock. Financial condition is characteristically strong. The company's marked stability of earnings and dividends, under all conditions in the past, is the chief argument for inclusion of the shares in a balanced portfolio. Among similar companies, however, General Foods may be justly credited with having the most promising growth possibilities. Recent quotations for the common stock around 42 compare with high of 49 $\frac{3}{8}$ and a low of 36.

Sears, Roebuck & Co.

While still retaining its title as chief ranking mail-order enterprise in the United States, Sears, Roebuck has also established itself as one of the foremost operators of retail department stores. In fact, so successful has the company been in operating retail units throughout the country that even in the large urban areas, Sears'

Alternatives for Portfolio Balance

For Dow Chemical—Monsanto Chemical, Union Carbide

For General Foods—General Mills, Beech-Nut Packing

For Sears, Roebuck—J. C. Penney, Montgomery Ward

For Abbott Laboratories—Parke, Davis, Sterling Products

For Ex-Cell-O—Link-Belt, Caterpillar Tractor

For du Pont—Westinghouse Electric, Hercules Powder

department stores are successfully competing with older established organizations. At the end of 1939, the company had in operation 524 retail units, of which 77 were large department stores, with the balance divided among 430 class B and 17 class C stores, which are smaller and carry more specialized merchandise.

For the fiscal period ended January 31, last, the company, aided by a substantial gain in sales in the last six months and the more efficient operation of plants, reported record-breaking earnings. Net of \$37,255,274 was equivalent to \$6.60 a share on the 5,643,501 shares of stock, which comprise the company's entire capitalization. In the 1939 fiscal period earnings totaled \$23,354,364, or \$4.17 a share. Net sales in the most recent fiscal period were in excess of \$617,000,000, as compared with approximately \$502,000,000 in the previous fiscal period. Current assets at the end of January 31, last, including nearly \$22,000,000 in cash and marketable securities, amounted to \$209,845,750, and current liabilities, including bank loans of \$6,200,000, were \$45,584,000.

Reflecting principally substantially increased consumer purchasing power in large urban centers, sales of Sears, Roebuck in the month of June were 11.5 percent above those for June, 1939, and was the best volume for that month in the company's history. Total sales for the five months ended June 30th showed a gain of nearly 10 percent over the corresponding period a year ago.

Of the entire retail trade group, current prospects for the so-called mail-order houses appear to be the most promising. Sears, Roebuck, with a substantial stake in the purchasing power of both industrial and farm communities, will benefit from both increased industrial employment and any improvement in farm income. Recently the company issued its new fall and winter catalog, disclosing an average reduction in the price of many lines of merchandise of about 1.48 percent. The catalog again sets a new record for size and will be mailed to more than 7,000,000 customers.

In a well-balanced portfolio, retail trade is justly entitled to representation, and the shares of Sears, Roebuck appear to be one of the most promising media. Last year dividends totaled \$4.25 a share and thus far in the current year payments have been made at the rate of 75 cents a share quarterly. Recent quotations around 73 compare with a high of 88 and a low of 61 $\frac{1}{4}$.

(Please turn to page 490)



Can the "Fifth Column" Sit in at Directors' Meetings?

BELGIUM, France and Switzerland have had the problem for years of commanding the loyalty of domestic business when controlled or influenced by foreign capital. Chief among Rumania's troubles has been the ownership of a major part of her oil industry by English, Americans, Germans and others. All through Europe the clash between financial interests has been going on much longer than that between armies, and in some cases with greater effect.

When the story of Luxembourg is told in detail, if it ever can be, the capture of that small nation by the Nazis without effort will revolve around her chief and only industry, her steel mills. Through a complicated setup, German capital directed Luxembourg business, employment, finances and, in the final event, destiny.

Up to the moment France was to make her last ineffectual stand, it has been reported and never convincingly refuted that French steel was going through Belgium into Germany and coal was coming back. France was betrayed by her politicians, but perhaps also by her internationally controlled industry. She, like all democracies, was handicapped in a game of this sort by lack of the complete control exercised by the dictators over their businessmen.

BY JOHN LLOYD

Must the United States fear the same type of sabotage, originating in directors' rooms rather than in the shops? Must we suspect the sincerity of each large company's effort in the armament program or even in general industry?

After the unbelievable happenings in Europe it would be wrong to make a negative generalization and let it go at that. We do know that our position as to control of our own large enterprises has improved vastly in the last twenty years. Where formerly European capital bulked heavily in both bonds and equities of American corporations, much of this form of debt has been repatriated as a natural consequence of growing American strength and maturity. Because we are no longer a debtor nation, we have acquired an independence of foreign capital we did not possess in the last war.

But Dutch nationals owned over half a billion dollars' worth of American stocks and bonds when the Germans invaded Holland, and the French close to two hundred million dollars' worth. How successful the Germans can be in getting possession of these securities is doubtful; the United States has frozen such assets among others so that the proceeds of their liquidation cannot flow into Germany. Voting power remains, however, and even

more important, the influence and connections which accompany large stockholdings.

Swiss ownership of American stocks and bonds is estimated at slightly over \$600,000,000, of which 90 per cent is in stocks. Switzerland is still neutral and independent, but it is well known that investments have for years been routed through there from France, Germany and elsewhere for the purpose of concealing their true owners. Furthermore, Swiss assets are not subject to restrictions of any kind by the American Government under present conditions.

If English interests in American companies were suspected of hostility, the scope of the possible threat to our defense program would be considerably broadened. Consider the importance of International Nickel to domestic business. And recently it was reported that one of the largest buildings in the United States, the Equitable Office Building Co., could not go ahead with the business of its meeting because 178,000 shares or over 20 per cent of its stock was held in Europe, most of it in England, and no proxies on these holdings had yet been received. However, it seems safe to assume that British interests are not to be in conflict with our own in our rush to arm, and that their part in American business is entirely a cooperative one.

Direct German participation in American business is hard to find for the simple reason that the Nazis have been so poverty-stricken that they have prevented in every way possible the export of capital. Those cases that exist are left over from previous arrangements, usually reduced in extent and frequently under control of Germans out of sympathy with their country's present government. It would be unfair to accuse them, without further evidence than their nationality, of any desire to conduct their business in ways counter to the best interests of the United States.

American Telephone and U. S. Steel have recently reported on the amounts of their stock held by foreigners. Their situation may be considered typical of large, internationally-known American companies. Total foreign holdings of Telephone amounted to 462,000, of Steel to 503,195 shares, with the latter reduced from 841,965 shares a year ago, mainly through English sales. They were divided:

| | <i>American Telephone</i> | <i>U. S. Steel</i> |
|---------------------|---------------------------|--------------------|
| Canada | 221,000 shares | 105,857 shares |
| British Isles | 105,525 " | *47,975 " |
| France | 23,864 " | 9,749 " |
| Holland | 75,307 " | 304,794 " |
| Others | 36,000 " | 34,820 " |

*Reduced from 242,825 shares held on March 31, 1940.

Europeans, particularly the Dutch, have always been heavy investors in American railroads. The importance of the carriers to any preparedness effort is so apparent that we might look at a few of the more important roads to see how their ownership lists line up. (These figures are from reports of largest stockholders made some

time ago to the Interstate Commerce Commission.

In the Southern Pacific, the largest single stockholder was reported as Boissevain Bros. of Amsterdam, with 105,489 shares. The eighth largest holder of Erie was Louis Korijn & Co., also of Amsterdam, which was once friendly neutral territory.

A Dutch firm with a discouraging name was reported at the head of Union Pacific stockholders. The firm is Maatschappij Tot Beheer Van Het Administratiekantoor Van Amerikaansche Spoor Wegwaarden Oppericht Door Wertheim and Gampertz Westendorp & Co., en F. W. Oswel, N. V. The same firm, a holder of American stocks against Dutch certificates widely held, was second in Baltimore & Ohio, fifth in Southern Railway, tenth in New York Central and second in Pennsylvania R. R. Through its holdings of Union Pacific (which in turn is the largest stockholder of Pennsylvania and the fourth largest of B. & O.) this concern had a stake in a number of other American roads.

The Swiss Bank Corp. of Basle is first on the list of B. & O. stockholders, third on the Pennsylvania list. Peirson & Co. of Amsterdam is fifteenth on the Southern Railway list, Credit Suisse on Zurich third on the B. & O. list. In the case of the last-named road, the three largest stockholders reported were foreign.

None of these holdings constitute working control or even an indisputable right to name a director, among the largest being the Swiss Bank Corp.'s 260,051 shares of B. & O. Should they fall into Nazi hands, however, and particularly if they could be concentrated along with smaller Swiss, Dutch, French

and Belgian holdings, the United States would be forced to keep an eye out to see that no possibility of inimical acts existed.

One of the reports from Berlin in mid-July was to the effect that considerable amounts of new capital were going into the financing of new synthetic gasoline plants. Among the larger issues was a loan for the Hydrierwerks Poelitz, owned jointly by I. G. Farbenindustrie and Deutsch Amerikansche Petroleum A. G. Now the latter company is the German subsidiary of the Standard Oil Co. of New Jersey, and the former is the combine put together to lead the German chemical industry. Standard Oil Co. and I. G. Farbenindustrie have had working agreements as to their use of the hydrogenation process in treating crude oil. It was this German chemical trust, moreover, which last February permitted Standard Oil of New Jersey to acquire the American rights to manufacture the Buna rubber substitute. Much importance is attached to the possibilities of Buna in providing insurance for the United States against a sudden break in rubber shipments from the Far East.

I. G. Farbenindustrie was also one of the backers of the former American I. G. Chemical, now the General Aniline & Film Corp., having guaranteed the debentures of the company when they were outstanding. General Aniline & Film is one of the largest factors in dyestuffs in this country, and is second (*Please turn to page 489*)

New Status for Rail Equipments

Beneficiaries of Armament Manufacture, Export Orders and Increased Rail Traffic

BY JESSE J. HIPPLE

THE railroad equipment industry stands to benefit from the results of war abroad and the feverish preparations to rearm at home in three distinct ways:

1. Increased shipments of raw materials and finished products from all sections of the country to fabricating and shipping centers will call for a heavy increase in freight movements which, in time, will call for a considerable improvement in the quantity and types of both cars and locomotives as compared with those already on hand.

2. Virtual elimination of foreign production of railroad equipment opens up the entire export field to the American manufacturer and later promises considerable rehabilitation work abroad.

3. The increasing demand for an adequate American defense system will necessitate the manufacture of thousands of armored vehicles including railroad cars, armored tanks and other machines which come within the scope of the railroad equipment makers' experience and

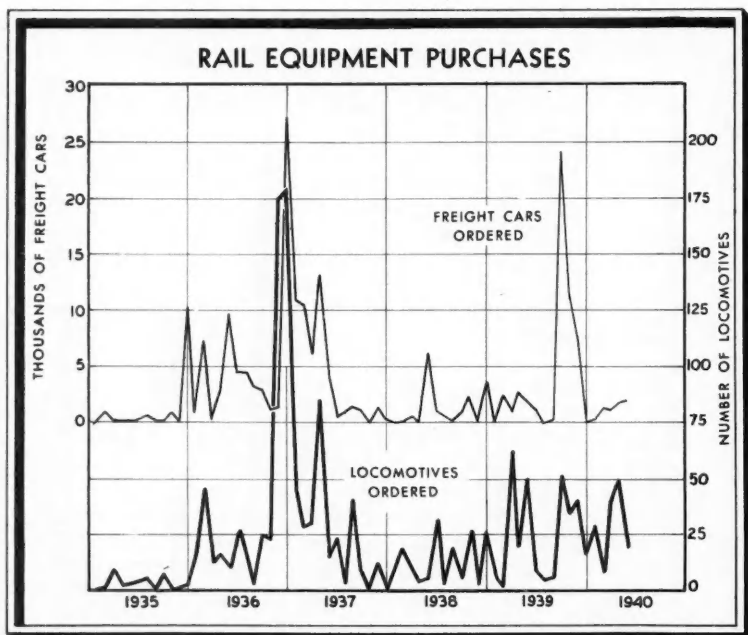
in addition, guns and carriages of all sizes as well as shell castings and the many similar items made so profusely by this industry for the Allies and our own Government during the last war.

Comparison of the conditions of the railroads as they were 25 years ago and as they are today has but small bearing on today's prospects, for when the effects of war activities began to be apparent in 1915, the railroads were in their heyday and equipment and facilities were adequate for normal purposes. Moreover, the equipment and facilities were relatively young as compared with some of the present day's fugitives from a museum. Despite the comparatively excellent condition of the roads at that time, an average increase of 40 per cent in traffic during the war years not only swamped the roads but sent them scurrying to buy considerable extra equipment to handle the increase in freight.

This in spite of the fact that prior to 1914 orders for new equipment had been heavy and at the outset of World War No. 1 considerably more than half of the locomotives in service were less than ten years old, while only about 25 per cent of the freight cars on the line had been built prior to 1905.

In comparison with conditions during the 1914-1917 period, today's showing of railroad equipment makes a rather sorry spectacle. The number of new freight cars and locomotives purchased by the railroads during the past 20 years has, with but a few interruptions, been declining constantly. Of the slightly more than 1,671,000 Class 1 freight cars of all descriptions on hand at the close of last year, only about 20 per cent were less than 10 years old and of the 41,021 locomotives reported on the same date, approximately 90 per cent were purchased prior to 1930. And, moreover, of the 41,021 locomotives so reported only 34,514 or about 86 per cent, were in good order and but a slightly higher proportion of the freight cars on hand at the same date were fit for service.

Despite the fact that the modern



freight car can carry about a 10 per cent greater load than its predecessor and the modern locomotive has about 20 per cent greater traction power than the more ancient engine, their proportion of the whole is comparatively so small that their extra efficiency is all but lost and much new material will be needed to meet any increased demand for service if some of the dire results of the last breakdown are to be avoided.

There is no doubt that the railroads fully realize the need for more and more modern equipment and late last year they began to place orders for locomotives and freight cars in sizeable volume. While the resolution shown at the beginning of the current war was commendable, it lacked virility and succumbed to the normal conservatism of most of the railroad managements with the result that orders died out almost completely by December and have only just begun to revive within recent weeks. Despite the evident intention to refurbish the almost wholly obsolete assortment of freight cars and locomotives now on hand, orders for new freight cars in the first 5 months of 1940 have been sharply lower than the 1939 monthly average and even smaller than the monthly average for the relatively poor year 1938. On the other hand, orders for new locomotives have averaged 33.2 units a month for the same period of this year; well above last year's monthly average of 25.3 units although in no way comparable to the average of 185 locomotives a month made in the years from 1914 to 1918. Doubling the average monthly orders for locomotives will probably be seen later this year and even then, the number of engines added to the equipment in service would not be wholly adequate to meet nearer term potential demands and permit the continued retirement of some of the more obsolete engines now in service to the detriment of the efficiency of the railroads as a whole.

Federal Control Avoidable

It should be remembered that after our entry into the last war, bottlenecks developed which severely impeded traffic and finally made it necessary for the Federal Government to nationalize the railroad systems of the country. One of the principal factors that contributed to this development was that the railroad equipment, as good as it was at the beginning of the war, was unable to cope efficiently with the suddenly increased demand on it for service. With railroad equipment in its current condition it can well be imagined what would be the result of any sudden surge in carloadings which would call for the use of only 700,000 cars more a week.

Federal control played havoc with the rails and it is



Welding boiler tubes in the Baldwin Boiler Shop.

not in the industry's mind to have the roads Federalized again if it can be avoided. The rails know that one of the major moves required to gain in efficiency and to avoid delays and car shortages is to possess ample equipment. The fact that 44,340 out of the year's total of 54,439 freight cars were ordered in September, October and November of last year and 127 out of a total of 375 locomotives for the year were ordered during the same period indicates this awareness. Current orders, on a seasonal basis, are showing improvement so that the volume of business for the equipment manufacturers should increase quite sharply as time goes on.

Another phase of the railroad equipment business which heretofore has been unimportant is the necessity of many of the roads to acquire special equipment which will be used solely for the transportation of ordnance and other heavy materials intended for rearmament. This will include special flat cars of extraordinary strength and construction required to ship large guns, special cars to adapt naval guns for mobile coast defense units and other unusual items. The Pennsylvania Railroad has already placed orders for some such equipment and other orders are likely to follow as the need for them becomes increasingly apparent.

The second situation that should eventually prove to be beneficial to the railroad equipment industry is the export market. In the first place, American equipment makers are the only ones who remain completely free to produce material of this sort for other than domestic consumption and to ship the finished products to neutral or non-belligerent nations without hindrance. England and Germany, who for many years have supplied the bulk of the needs of South American countries, Japan, Russia and numerous other nations, are no longer able to manufacture exportable surpluses nor to ship them without considerable danger and difficulty

even if they were able to make them for sale abroad.

As both Germany and England began to recover from the effects of the last war on their production facilities, their exports of locomotives and other railroad equipment began to mount while at the same time exports of similar equipment from this country began to decline. Shipments of 106 locomotives to foreign destinations in 1929 marked the last time that locomotive exports topped the 100 level and the best subsequent shipment was 56 locomotives which went to foreign buyers in 1937. Last year only 36 locomotives were exported.

Since the first of the current year, foreign interest in American locomotives and other railroad equipment has been reviving. Shipments abroad during the first four months of the year were valued at \$6,930,286 or approximately equal to the value of shipments of similar equipment during the first 10 months of 1939. April's exports of \$2,792,213 were mostly to Brazil which received 14 steam locomotives and 243 freight cars with more to follow. In addition to the Brazilian business there are said to be numerous other inquiries in the market from Turkey, Iran, Egypt, Greece and Spain. The latter country is said to be about to embark upon a program of restoration of the large amount of rail facilities destroyed during the civil war. Many competent observers feel that 1940 offers the best export possibilities to the rail equipment makers of any year during the period since the close of the last European war.

Eventual peace in Europe also has some possibility for increased demand for American railroad equipment. Most German and English production capacity has been dislocated thus making it difficult for these countries quickly to re-establish the railroad facilities damaged during the struggle and so necessary for the transporta-

tion of raw and finished materials to be used for reconstruction.

While a revival in both domestic and foreign railroad equipment demand will materially aid the manufacturers to recover at least a substantial part of their lost prosperity, the third possibility—armament and munitions making—should become a very prolific source of future income.

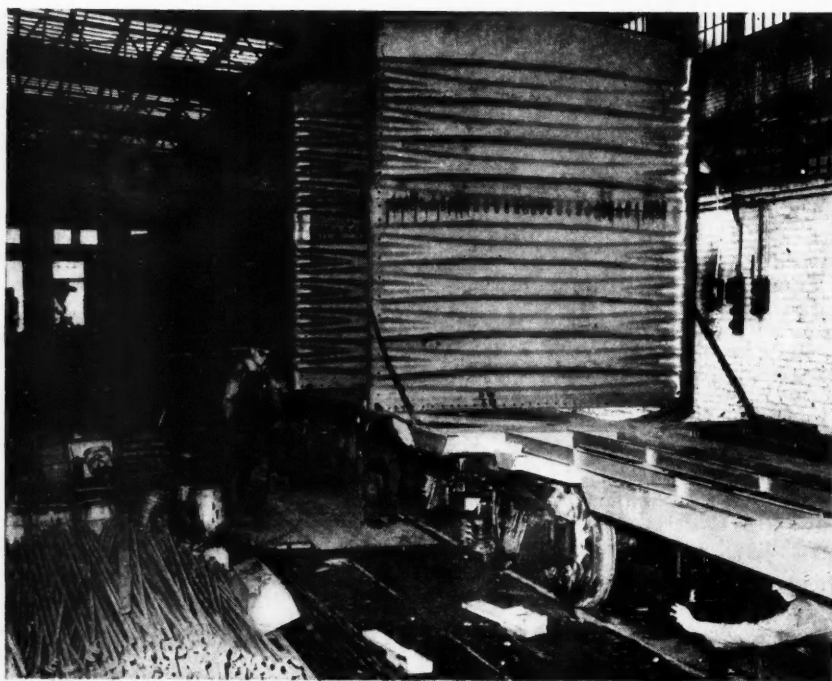
During the last world war the railroad equipment manufacturers played such an important part in it as makers of munitions that these companies have come to be regarded as the leaders among the "war babies." That the equipment makers will continue to play an important part in the production of armament and munitions is a foregone conclusion but their place in the category of "war babies" is subject to considerable doubt.

In the last war the equipment makers had been engaged in the production of war materials for several years for the Allies before the United States entered the affair. Thus, they were able to take on the additional business of the U. S. Government without any interruption of production schedules. This time it is somewhat different.

While it is true that several of the larger companies have received some foreign munitions orders and have also been given some educational orders by the U. S. Government, the demand has been light and production facilities necessarily limited. All of the vast set up of twenty odd years ago has long since been dismantled or scrapped and it is necessary for most of the manufacturers to re-tool before going into production on new orders on a large scale. Nevertheless, while such re-tooling may take a little time, many of the companies have that priceless commodity, experience, to apply to the problem with the result that the time required to achieve quantity production of many needed items will be surprisingly short.

What cannot be expected of the munitions business is the fabulous profits of the last war era. During that time, much of the work was done for the Allies who bought the required materials regardless of cost or known high profit margins for the producers. This time foreign business has been very small and is not likely to grow materially larger and at the same time there is now a legal limit upon the amount of profit that may be charged by the fillers of domestic munitions orders. Furthermore, increased taxes on profits will take an increasingly large slice of net income.

Nevertheless, with the possibility of operating at full capacity in the rail equipment end of the business and in addition securing large sized orders for military equipment from the



Triangle Photo

The solid steel box car, built of standardized parts, has now replaced the perishable, custom made wooden cars of yesterday.

Mid-Year Security Appraisal and Forecast

Part 1 — Machinery, Machine Tools, Electrical Equipment, Aircraft, Farm, Business and Rail Equipments, Utilities, Railroads

THE sharp decline and equally sharp recovery which took place in general business during the first half of 1940 have resulted in a net loss of ground as compared with the position at the beginning of the year; yet industrial activity is now well above what has come to be accepted as an average level. Furthermore, the trend is now favorable and Government orders in connection with the defense program should be an immediate psychological as well as an eventual practical sustaining influence.

Opposed to a sharp climb from these levels is the difficulty of getting into production on many of the armament orders, and the faint indications that business may have over-estimated the need to hurry buying in the last month or two in order to insure against a swamping

Two fundamental factors, the industry and the company itself, are used to form our ratings. The letters, A, B, C, D, are used in connection with the industry according to the current and prospective activity in the field. These letters are not concerned in any way with individual companies. The numbers, 1, 2, 3, 4, are used for rating the company on its earning power, current and prospective.

INDUSTRY
A—Active, further progress indicated.
B—Active, further progress may be slow.
C—Depressed, prospect for recovery favorable.
D—Depressed, no nearby improvement indicated.

COMPANY
1—Good earning power, substantial gains indicated.
2—Improvement in earnings expected.
3—Gain in earning power may be slow.
4—Earnings outlook unfavorable.

of production facilities. Another factor causing some doubts is the possibility of an early end to the European war, before the U. S. program has taken complete hold. On balance, however, the situation and the outlook are both favorable to a

high rate of business activity during the next few months.

Part I of our Mid-Year Security Appraisal is here presented. Part II in the issue of August 10 will cover Motors and Accessories, Foods, Meat Packers, Sugars, Liquor, Steels, Movies. Part III, in the issue of August 24, will cover Metals, Oils, Building, Merchandising and miscellaneous companies.

The tables are accompanied by our investment ratings, explained above. Issues with unbroken dividend records for ten years or more are marked with an asterisk. Issues recommended for safe income are noted with a star. Issues favored for cyclical appreciation potentialities are marked with a dagger symbol, but, or course, timing of any purchases should accord with advices given in our general market articles.

Diverse Influences Among Equipment Issues

THE very broad classification of equipment manufacturers contains some extreme contrasts in trend of volume and profits. Analysis of the smaller groups also reveals a definite reversal of status, with those branches formerly most dependable seriously threatened by recent influences and those most volatile in their past records attaining a position where unfilled orders practically assure a high rate of operations for

months or years ahead.

This process is not sudden, having been foreshadowed even before the war started, but it has brought along other difficulties for the investor which are not easily overcome. Principal among these are the problems of future Government tax policy, which will strike with particular force on the equipment makers if predictions prove correct.

With opinion in Washington

highly uncertain but apparently swinging in favor of a tax based on earnings in excess of the average of recent years, the plight of the feast-or-famine rail equipment makers is obvious. Most of them have displayed very little earning power during the protracted dearth of railroad buying, and faced with a pickup in this direction (see the article in this issue on the rail equipment industry), they stand to be

Position of Leading Equipment Stocks

Machinery and Electrical Equipment

| Company | Earned Per Share | | | Dividend | Market Rating | COMMENT |
|-----------------------------|------------------|----------------|---------------|----------|---------------|--|
| | 1939 | 1st half 1940E | 1st half 1939 | | | |
| Allis-Chalmers..... | \$2.09 | \$1.20 | \$.96 | \$1.25a | A-2 | Sizable backlog holds operations at profitable level. Will make defense equipment. |
| *Am. Mach. & Fdry..... | 1.04 | .40 | .32 | .90 | B-3 | Main business holds stable; work for Sperry and others should increase. |
| Babcock & Wilcox..... | 1.74 | 1.23c | def. | .60b | A-2 | Naval program plus industrial pickup point volume and earnings upward. |
| Black & Decker..... | 1.60f | .99g | .52g | 1.00 | A-2 | Demand for tools and motors aided by arms program. |
| E. W. Bliss..... | def. | NF | NF | .... | A-2 | Orders totaled \$9½ millions in May, will be increased by direct munitions work. |
| Bucyrus-Erie..... | 1.10 | .80 | .38 | .50a | A-2 | Business expected to veer from construction toward heavy industrial machinery. |
| †Bullard..... | 1.04 | 3.00 | .16 | .75b | A-2 | Operations rising to capacity but backlog continues high. |
| *Caterpillar Tractor..... | 2.89 | 1.75 | 1.08 | 2.00 | A-2 | Potential arms business may add to earning power. |
| Chicago Pneu. Tool..... | .33 | 1.00 | .09 | .... | A-3 | Further gains in profits should result from general industrial activity. |
| *Compo Shoe Mch..... | 1.92 | 1.20 | 1.04 | 1.00 | B-3 | Gradual gains should continue. |
| Crocker-Wheeler..... | def. | NF | def. | .... | B-3 | Backlog has risen; operations head higher. |
| Cutler-Hammer..... | 1.23 | 1.25 | .36 | .75a | A-2 | Gains through industrial pickup and demand for electrical controls. |
| †Ex-Cell-O Corp..... | 2.21 | 2.75 | .85 | 1.00b | A-2 | All divisions gaining, particularly machine tools. |
| †Fairbanks, Morse..... | 4.12 | 2.40 | 1.20 | 1.25b | A-2 | Earnings and dividends helped by naval program; taxes and profit limits only flaw. |
| Food Machinery..... | 2.32f | 1.11g | .76g | 1.37½ | B-2 | Pickup in foreign sales of canned foods would accentuate uptrend. |
| Foster Wheeler..... | def. | .75 | def. | .... | B-2 | 1940 should be first good year in a decade. |
| *General Electric..... | 1.43 | .90 | .57 | 1.40 | A-2 | Orders sharply higher and arms program will boost further. |
| *Ingersoll Rand..... | 6.01 | NF | NF | 6.00a | A-2 | Earnings pointing upward with better industrial and military demands. |
| *†Link-Belt..... | 2.23 | 1.25 | .50 | 1.50a | B-2 | Indirect beneficiary of use to augment industrial production. |
| *Mesta Machine..... | 2.72 | NF | NF | 1.50b | B-2 | Backlog and sales up; earnings moderately higher. |
| Monarch Machine Tool..... | 3.53 | 2.01c | 1.16 | 1.50b | A-2 | Unusual profits increase due to capacity operations. |
| *Myers (F. E. & Bro.)..... | 4.00h | 2.69i | 1.86i | 3.50a | A-2 | Gains should moderate but continue. |
| National Acme..... | 1.16 | 2.20 | .22 | .50a | A-2 | First quarter profits almost equalled all of 1939. |
| National Supply..... | def. | .10 | def. | .... | B-2 | Should stay above break-even point. |
| Niles-Bement-Pond..... | 4.71 | NF | NF | 1.25b | A-2 | Capacity operations indicate moderately better profits. |
| Savage Arms..... | 2.08 | .90 | .44 | 1.25a | B-2 | Machine gun business helping to swell profits. |
| Square D..... | 3.02 | 1.90 | .90 | 1.75a | B-2 | Stake in aircraft instruments as well as navy program. |
| *United Eng. & Fdy..... | 2.54 | 1.25 | 1.12 | 2.50a | A-2 | Domestic business should increase, but foreign orders hurt by war developments. |
| U S Hoffman Mach..... | def. | Nil | .25 | .... | B-3 | Moderate improvement indicated for near future. |
| Van Norman Mach. Tool..... | 2.89 | 2.78j | 1.39j | 2.00a | A-2 | Defense program further broadens potentialities. |
| Walworth..... | .12 | .10 | def. | .... | B-3 | Marine work helps in gradual betterment. |
| Wayne Pump..... | 3.23k | 1.50l | 1.41 l | 1.50 | B-3 | Steady earnings and dividends expected. |
| †Westinghouse Electric..... | 5.18 | 3.75 | 2.37 | 3.50a | A-2 | Record unfilled orders to be further boosted by arms program. |
| †Weston Elec. Inst..... | 3.03 | 3.00 | .76 | 1.00a | A-2 | Aircraft instruments and other lines growing rapidly. |
| Worthington Pump..... | .54 | 2.50 | def. | .... | A-3 | Industrial and marine business sharply higher. |

BUSINESS

| | | | | | | |
|---------------------------|--------|--------|--------|--------|-----|--|
| Addressograph-Multig..... | \$1.35 | \$4.65 | \$5.67 | \$1.00 | B-3 | Dividend reduction to 25c made to conserve cash for possible use in defense program. |
| *Burroughs Adding..... | .44 | .25 | .27 | .40 | B-3 | Domestic sales have been higher, foreign business distorted. |

penalized for their previous hardships.

In addition to the companies with poor recent earnings records, another class would suffer under this policy of taxing excess profits. The so-called growth companies are naturally under present conditions showing large gains over their profits of the last few years. Taxing them on excess of earnings over their recent average is equivalent to penalizing them for their ability to progress, whether or not their business has any connection with armaments.

It is too early to form any final judgment on the most likely shape of taxation or on investor policy. The subject must be in the background, however, of any discussion of earnings outlook as distinct from mere volume of business.

Manufacturers of machinery and electrical equipment will of course be in the forefront of the U. S. armament program. Their products were indispensable in the last war and are even more so in this period of preparation, with its emphasis on mechanization of troops. Furthermore, most of the companies in these lines are interested not only in the direct supply of equipment, but more vitally in the pace of heavy industry, which is itself stimulated by the war effort.

Machine tools have been a cause of worry to the Government as a potential bottleneck, already impeding to a slight extent the installation of new productive capacity. A year ago the industry was operating at about 65% of capacity. Today the rate is probably around 93%, and meanwhile capacity has been enlarged so substantially that the current rate would equal well over 100% if calculated on the old basis. There is no doubt on the score of orders for machine tools; they will continue to exceed capacity for some time to come, with backlogs in the field generally representing several months' to a year's work, or more.

The naval and merchant marine program which has been going on since long before the European war began is proving a stimulus to several divisions of the machinery and electrical equipment manufacturers. Boilers, diesel and electric engines, together with quantities of complicated instruments and machinery, are in growing demand. The ship-

building program is necessarily long-range, and there is no reason to expect any change in the upward trend for marine equipment.

With few exceptions, the companies in this classification are also greatly affected by the current rise in general industrial activity. New orders have recently run ahead of production in capital goods—new orders which are directed in most cases at the type of manufacturers under discussion. Their volume (again with certain exceptions which are distinguishable by the special nature of their business) should continue to rise throughout the remainder of the year with only temporary setbacks to be expected.

Business equipment is in a different category, injured rather than helped by the present war. Export trade of these companies and the plants many of them have operated in foreign countries are alike endangered or lost. Since exports were important aids to volume and earnings, they will be difficult to replace. Even those companies which enjoy a large measure of stability because of rental income will find it hard to replace lost markets unless South American trade should boom in unexpectedly large proportions. Some offset may be found in work which can be done for the Government—making precision parts and small machines—but profits on this can in most cases hardly restore former earning power entirely. On the other hand, declines in market price have given more or less adequate consideration to the unusual outlook, and these companies are relatively free from worries over "excess profits" taxation.

The farm equipment makers have been helped by larger volume and slightly better profit margins, so that their reports for fiscal years ending in October will show the corner to have been turned. Farm income is running steadily above a year ago, and the introduction of machinery more attractive on a price basis is having its effect. Gradually increasing income from this source is indicated. In addition, several of the larger equipment makers are natural suppliers of tractors, trucks and tanks to the Army; volume of Government work should shortly expand into a factor of considerable importance.

Position of Leading Equipment Stocks

BUSINESS (Continued)

| Company | Earned Per Share Full Year 1939 | First Half 1940E | 1939 | Divi- dends | Market Rating | COMMENT |
|---------------------------|---------------------------------------|---------------------|-------|----------------|------------------|---|
| *Int'l Bus. Mach. | 10.63 | 5.30 | 4.89 | 6.00g | B-3 | Moderate improvement over 1939 is continuing, with rentals a stabilizing influence. |
| Nat'l Cash Register. | 1.10 | .75 | .73 | 1.00a | B-3 | Domestic sales rising but have not made up for foreign disruptions. |
| Pitney-Bowes. | .70r | NF | .26 | .50a | B-3 | Slow, steady progress is probable. |
| Remington Rand. | .59m | .88m | .... | .80 | B-3 | Foreign business, usually important, is drag on current earnings. |
| Royal Typewriter. | 5.17n | 4.11i | 3.46i | 4.00 | B-3 | Fiscal year ending July will show another good gain. |
| Smith & Corona. | .96p | .45s | .45s | .50 | B-3 | Domestic business carrying burden at present. |
| Telaugraph. | .37 | .25 | .15 | .20 | B-3 | Sales are improving, profits somewhat larger. |
| *Underwood-Ell. Fisher. . | 2.53 | 1.25 | 1.17 | 2.00 | B-3 | Foreign sales hold back improvement in domestic business. |

RAILROAD

| | | | | | | |
|---------------------------|--------|-------|--------|-------|-----|--|
| *Am. Brake Shoe. | 2.39 | 1.50 | 1.01 | .70b | B-2 | Further gains expected to result from industrial demands on railroads. |
| †Am. Car & Fdry. | def. u | NF | def. | .... | B-2 | Armament orders have boosted backlog and operations greatly. |
| Amer. Locomotive. | def. | def. | def. | .... | B-2 | Rail business improving, armament orders ahead. |
| Am. Steel Fdries. | 1.15 | 1.30 | .09 | .50a | B-2 | Operations have contracted, but war orders could reverse trend. |
| †Baldwin Locomotive. | .41 | 2.00p | def. p | .... | B-2 | Large backlog, supplemented by present and future war orders. |
| *†Gen. Am. Transp. | 3.11 | 2.40 | 1.23 | .... | B-2 | Steady gains over last year indicated. |
| Gen. Rwy. Signal. | .34 | .45 | def. | .... | B-2 | Possible beneficiary of armament business. |
| Lima Locomotive. | def. | NF | NF | .... | B-2 | Rail equipment ordering in volume would return Lima to affluence. |
| Nat'l Malleable. | 2.60 | 1.50 | .66 | 1.00a | B-2 | Activity has tapered off slightly, but could quickly revive. |
| N. Y. Air Brake. | 2.89 | 3.21A | .83 | 1.00b | B-2 | Substantial profits should continue unless rail buying collapses. |
| Poor & Co. "B". | .96 | .90 | .67 | .... | B-2 | Second quarter probably failed to match \$.62 of first quarter. |
| Pressed Steel Car. | def. | 1.20 | def. | .... | B-2 | Second half may not match first; possible arms orders to come. |
| *Pullman. | 1.05 | 1.05 | .29 | 1.00 | B-2 | Munitions will be important. Gov't anti-monopoly suit begun. |
| Superheater. | .67 | .40 | .29 | .60a | B-2 | Business and backlog have held above last year. |
| Symington-Gould, W. W. . | .80t | .70 | def. v | .... | B-2 | Railroad buying necessary to sustain recent earnings rate. |
| *Union Tank Car. | 2.07 | 1.00 | .60 | 1.80 | B-2 | Comparison with year ago affected by reduced depreciation charges. |
| West Air Brake. | .87 | 1.00 | .27 | .62½a | B-2 | Munitions manufacture large potential factor. |
| Youngs. Steel Door. | 1.20 | 1.40 | .29 | 1.00 | B-2 | Excellent first half may not be duplicated in second, but rail buying would sustain. |

AGRICULTURAL

| | | | | | | |
|-------------------------|---------|----|----|------|-----|---|
| J. I. Case. | def. h. | NF | NF | .... | B-2 | Better sales and inventory position forecast return of profits. |
| Deere & Co. | 1.82h | NF | NF | .75a | B-2 | Most lines showing improved results. |
| *†Int'l Harvester. | 1.71h | NF | NF | 1.60 | B-2 | First half volume up 30%. Army orders will be handled in volume. |
| Minn.-Moline. | def. h | NF | NF | .... | B-3 | Moderate gains in sales and earnings. |
| Oliver Farm. Eq. | 1.27 | NF | NF | .... | B-2 | Sales in first quarter up 15% and trend has continued; profits gaining. |

a—Paid last year. b—Paid this year. c—First quarter. f—Year to Sept. g—6 mos. to March. h—Year to Oct. i—6 mos. to April. j—24 weeks. k—Year to Nov. l—6 mos. to May. m—Year to March. n—Year to July. p—Year to June. q—Plus stock. r—Year to following March. s—6 mos. to June. t—Year to following January. u—Year to following April. v—6 mos. to July. A—Actual. E—Estimated. NF—Not available. *—Uninterrupted dividends over 10-yr. period. †Recommended for cyclical appreciation.

Position of Leading Railroad Stocks

ON an 11% increase in gross operating revenues during the first five months of 1940 the nation's Class I carriers scored a gain in net operating income of 55% over the like period of last year. This record was no doubt fully sustained if not extended in June and prospects are now good that for 1940 as a whole the rails will reach a new recovery high in net operating income topping the previous figure of \$667,347,000 established in 1936. Carloadings to date have run consistently ahead of the corresponding 1939 weekly totals, though year to year gains fell as low as 3% during the general business letdown of last winter. Since then, however, the comparison has steadily improved and latterly carloadings have been running around 14% above a year ago.

The shippers' advisory boards forecast a 9% gain in rail freight traffic for the current quarter, though this figure may prove somewhat low in the light of current developments. In any case, a larger percentage advance would probably result in revenues since the larger increases among specific commodities are anticipated in the heavy manufactured goods categories which carry rates well above the average.

In the five months ended May 31 the rails carried 12% of total operating revenues through to net operating income. Full year results will depend on the maintenance of this operating ratio and, so far as can be foreseen at this time, the industry seems reasonably safe from any major advance in operating costs over the remainder of the year. Higher minimum wages may affect some southern carriers and the setting of coal prices is expected to result in moderately higher fuel costs for roads without their own sources of production. For the most part, however, no general or important advance in costs is foreseen. There will be excess profits taxes to reckon with, of course, but the rails may well prove to be less vulnerable to these than the general run of industrial enterprises.

The industry has taken every occasion to declare itself amply prepared to meet whatever demands

| Company | Earned Per Share 1939 | 1st half 1940E | 1st half 1939 | Divi- dend | Market Rating | COMMENT |
|----------------------------|--------------------------|-------------------|------------------|---------------|------------------|--|
| Atchison..... | \$.95 | def. | def. | .... | C-3 | Agricultural prospects have improved and last half should bring 1940 ahead of 1939. |
| Atlantic Coast Line..... | .96 | def. | \$.10 | .... | C-3 | Territory should do better later in year, after poor start. |
| Baltimore & Ohio..... | def. | def. | def. | .... | C-2 | Stock very speculative, but operating results can gain sharply. |
| Bangor & Aroostock..... | .17 | \$2.50 | 2.71 | .... | C-3 | Difficulties may be eased by large pulp and paper shipments. |
| Canadian Pacific..... | .32 | NF | NF | .... | C-3 | Canadian taxes and exchange slump are factors, despite industrial gains. |
| Cent. R. R. of N. J..... | def. | def. | def. | .... | C-3 | Outlook continues relatively unpromising, though showing some improvement. |
| *Chesapeake & Ohio.... | 3.49 | 1.80 | .67 | \$2.50 | C-2 | Earnings maintain improvement. |
| Colo. & Southern..... | def. | def. | def. | .... | C-4 | Territory has little to gain from boom in industrial territory. |
| Delaware & Hudson..... | def. | .47Ab | def. b | .... | C-3 | Railroad operations profitable and improving. |
| Del., Lack. & West..... | def. | def. | def. | .... | C-3 | Some gains in miscellaneous traffic. |
| Erie..... | def. | def. | def. | .... | C-3 | Industrial activity is favoring operations, though deficits are chronic. |
| Great Northern..... | 3.48 | Nil | def. | .... | C-2 | High blast furnace activity and ore shipments give substantial aid. |
| Illinois Central..... | .90 | Nil | def. | .... | C-2 | Industrial pickup maintains better earnings. |
| Kansas City Southern.... | def. | .05 | def. | .... | C-3 | General traffic outlook favorable. |
| Lehigh Valley..... | def. | def. | def. | .... | C-3 | Moderate improvement indicated. |
| Louisville & Nashville.... | 6.32 | 1.70 | 1.17 | 5.00a | C-2 | Higher earnings and larger dividends expected. |
| Miss.-Kans.-Tex..... | def. | def. | def. | .... | C-3 | Prospects are relatively unpromising. |
| N. Y. Central..... | .70 | def. | def. | .... | C-2 | Leading beneficiary of higher industrial activity. |
| N. Y. Ch. & St. L..... | 3.58 | def. | def. | .... | C-2 | High leverage allows possible further large gains in profits on common. |
| N. Y. Ont. & Western.... | def. | def. | def. | .... | C-4 | Only sluggish recovery probable. |
| *Norfolk & Western..... | 20.68 | 10.00 | 5.85 | 15.00a | C-2 | Sharp gains over 1939 first half unlikely to be matched in second, but outlook good. |
| Northern Pacific..... | .03 | def. | def. | .... | C-3 | Uptrend in earnings should continue. |
| *Pennsylvania..... | 2.43 | .70 | .24 | 1.00a | C-2 | In strategic position for industrial traffic. |
| Pere Marquette..... | def. | .20 | def. | .... | C-3 | Sharp pickup in traffic may permit dividends. |
| *Reading..... | 1.37 | .50 | .02 | 1.00 | C-3 | Connections with industrial areas help in traffic improvement. |
| Southern Pacific..... | 1.63 | def. | def. | .... | C-3 | Further year-to-year profit gains anticipated. |
| Southern Railway..... | 2.69 | def. | def. | .... | C-2 | Leverage high for common; territory increasing its activity. |
| *Union Pacific..... | 6.74 | .90 | .43 | 6.00a | C-3 | Immediate gains will not be sharp. |
| Western Maryland..... | .14 | .55 | def. | .... | C-3 | Steel and coal activity helpful. |

E—Estimated. NF—Not available. A—Actual. *—Uninterrupted dividends over 10-year period. a—Paid last year. b—First quarter.

are made upon it in connection with the national defense program. The RFC has advised strongly against the postponement of any equipment purchases deemed necessary, suggesting orders be placed well in advance of anticipated traffic gains and offering to finance such purchases as a measure of national de-

fense. During the first five months of this year the roads increased equipment outlays 10 to 15% and, more recently, buying programs have been stepped up considerably further. Every effort is apparently being made to assure that the car shortage experienced in the last war will not be repeated.

By a recent prospect the major utilities. It went to go to the no gro event eral u be rep challenge lation. and s ever, admin the e into th prise. that i if the As be ex defens super- system proba again on rec ect "opin indus stand grid n progr wise, little vided serio comm More stimu panie a rest Pot run a and creas quart trend quart earni the i first tions throu JULY

Position of Leading Public Utility Stocks

By all odds the most significant recent development bearing on the prospects of the utility industry is the nomination for President by a major party of a man familiar with the problems faced by industry in general under the New Deal and by utilities in particular.

It would be a mistake, of course, to go too far in evaluating the potentialities of this situation. There are no grounds for believing that, in the event of Mr. Willkie's election, Federal utility regulatory measures will be repealed. Mr. Willkie has never challenged the need for Federal regulation. What he has vociferously and successfully challenged, however, is arbitrary and bureaucratic administration of that regulation and the encroachment of Government into the field of private utility enterprise. It is in matters of this sort that improvement may be expected if the Republicans win in November.

As for the part the industry may be expected to play in the national defense program, the question of a super-grid linking the major eastern systems is still hanging fire, but will probably be brought to the fore again later. Here again Willkie is on record as having termed the project "wholly unnecessary." This opinion, of course, is shared by the industry generally which also understandably fears the use to which the grid might be put after the defense program is out of the way. Otherwise, the industry apparently has little to fear from the program provided it is not accompanied by a serious inflationary movement in commodity prices, especially coal. Moreover, power sales should be stimulated, especially for those companies serving industrial regions, as a result of the armament boom.

Power consumption continues to run about 10% ahead of a year ago and this rate of gain may be increased somewhat in the current quarter despite a generally rising trend of business activity in the third quarter of last year. Fairly uniform earnings improvement throughout the industry was witnessed in the first six months of 1940 and indications are that this will be extended through the final half of the year.

| Company | Full Year 1939 | Earned Per Share 1940E | First Half 1939 | Dividends | Market Rating | COMMENT |
|--------------------------------|----------------|------------------------|-----------------|-----------|---------------|--|
| Amer. & Foreign Power..... | \$48.88 | NA | NA | None | B-3 | Lower exchange rates an offsetting factor to improved earnings of subsidiaries this year. |
| *Amer. G. & E..... | 2.50 | \$3.00 | \$2.45a | \$0.30 | B-2 | Increasing consumption of electric power points to extension of upward earnings trend this year. |
| *Amer. Light & Traction..... | 1.52 | 1.65a | 1.50a | 0.90 | B-2 | Management recently announced plan of company to divert itself of interest in paper industry. |
| American Power & Light..... | 0.42 | 0.65 | 0.10 | None | B-2 | Earnings thus far in 1940 running about double 1939 rate. Gains seem likely to be maintained. |
| *Amer. Tel. & Tel..... | 0.24 | 5.00 | 4.28 | 6.75 | B-2 | Net station gain of Bell System for first six months of 1940 was 449,000 against 370,000 in same period of last year. |
| Amer. Water Works..... | 0.95 | 0.70 | 0.13 | None | B-2 | Dividend payments held up by need of funds for establishment of subsidiaries. |
| *Brooklyn Union Gas..... | 2.42 | 1.75 | 1.70 | 0.75 | B-3 | As soon as market conditions and the company's affairs permit, callable portion of 5% and 6% bonds will be refunded. |
| Columbia Gas & El..... | 0.46 | 0.65 | 0.43 | 0.20 | B-3 | Small dividend paid this spring, first since 1937, may be supplemented later in year. |
| *Commonwealth Edison..... | 2.34 | 1.40 | 1.33 | 1.35 | B-2 | Electric consumption in area served will be stimulated by increased industrial activity under national defense program. |
| Commonwealth & Southern..... | 0.13 | 0.10 | 0.11 | None | B-3 | Nation's gain in Willkie is this company's loss. Moderate revenue gains over remainder of year appear likely in present industrial setting. |
| *Consol. Edison..... | 2.22 | 1.60 | 1.53 | 1.00 | B-3 | Revenue gains may be only moderate since company's industrial load is relatively light. |
| *Consol. Gas of Baltimore..... | 4.94 | 2.75 | 2.54 | 2.70 | B-2 | Local steel, aircraft and other industries will be taking increased quantities of power from here on. |
| *Detroit Edison..... | 7.58 | 8.32Aa | 7.54a | 5.00 | B-2 | Present dividend rate appears secure. Increased provisions for depreciation and other reserves may partially offset probable revenue gains. |
| Elec. Bond & Share..... | 0.24 | 0.12 | 0.10 | None | B-3 | Though one of chief targets of Utility Act, company's generally sound assets warrant optimistic outlook. |
| Elec. Power & Light..... | d0.35 | 0.30a | d0.42a | None | B-2 | Overall results of company's diversified activities have been unprofitable for common stockholders in recent years but improvement is looked for. |
| Federal Light & Traction..... | 2.64 | 1.60 | 1.45 | 3.00 | B-2 | Though only 25 cents was paid in 1939, chances are that \$1 paid thus far in 1940 will be supplemented later with further earnings betterment. |
| Gary Elec. & Gas..... | 0.55 | NA | NA | None | B-2 | Earnings doubled in the first quarter and even if this rate of improvement is not maintained substantial betterment this year is indicated. |
| International Tel. & Tel..... | 0.76 | NA | NA | None | B-3 | Spread of war in Europe and possibly through rest of world constitutes an obvious hazard to this company's re-flung activities and interests. |
| Laclede Gas Light..... | d2.43 | NA | NA | None | B-3 | Company plans property exchange with North American Co. pursuant to integration under Utility Act. |
| *Louisville Gas & El. "A"..... | 2.33 | 3.00a | 2.21a | 0.75 | B-2 | Despite relative stability of service area and restricting effect of rate cuts, earnings are trending upward. |
| Nat'l Power & Light..... | 1.12 | 1.25a | 1.05a | 0.30 | B-2 | Present 60 cent dividend rate seems safe. Asset position of common shares has been strengthened by cash derived from dissolution of Lehigh Power Securities. |
| Niagara-Hudson Power..... | 0.51 | 0.40 | 0.31 | None | B-2 | Hydro facilities offer protection against possible threat of higher coal prices while output will benefit from increased demand. |
| North Amer. Co..... | 1.84 | 2.20a | 1.72a | 0.60 | B-2 | Higher costs should be at least partially offset by larger power consumption in Cleveland, St. Louis and Milwaukee. |
| *Pacific Gas & Electric..... | 2.84 | 2.90a | 2.75a | 1.50 | B-2 | Long range outlook continues favorable though rate cuts are factor as regards near term results. |
| *Pacific Lighting..... | 3.60 | 3.00a | 4.46a | 2.25 | B-2 | Defense program will have little effect in company's service area. |
| Peoples Gas, Lt. & Coke..... | 3.49 | 4.05 | 2.33 | 1.50 | B-2 | Rates have been reduced and customer refunds totaling some \$6,000,000 are to be made at the direction of the court. |
| *Public Service of N. J..... | 2.88 | 2.95a | 2.72a | 1.20 | B-2 | Despite \$1,100,000 rate reduction, higher industrial activity should result in at least moderate revenue gains. |
| *Southern Calif. Edison..... | 2.36 | 1.00 | 0.99 | 1.52½ | B-2 | Moderate earnings improvement expected since continued steady growth in number of customers should continue to offset tax burden and rate cuts. |
| Standard Gas & Electric..... | d1.34 | 0.10 | d0.31 | None | B-3 | Company plans disposal of West Coast properties as initial step in compliance with Utility Act. |
| United Gas Co..... | d0.55 | 0.50a | d0.62a | None | B-2 | Company plans important refunding operation. Operating results over rest of year will not be greatly affected by defense program. |
| *United Gas Improvement..... | 1.07 | 0.60 | 0.55 | 0.75 | B-2 | Modest revenue gains are anticipated though probably higher costs militate against likelihood of improvement being substantial. |
| United Light & Power "A"..... | 0.29 | 0.55a | d0.05a | None | B-2 | First quarter results benefited by severe weather and subsequent gains may not measure up. |
| Washington Gas Light..... | 2.52 | NA | NA | 1.12½ | B-2 | This year's results should top those of last year since load is continuing to expand and costs are well in hand. |
| Western Union..... | 1.32 | 0.89Ab | d0.60Ab | None | B-2 | Continued earnings progress shown so far this year is expected to be extended over the remainder of 1940. |

*Recommended for income. E—Estimated. A—Actual. NA—Not available. a—12 months ended June 30. b—5 months ended May 31. c—Paid or declared to date in 1940. *Uninterrupted dividends over 10-year period.

Aircraft Companies Face New Problems— Airline Traffic Grows

THE recent market action of the aircraft stocks is somewhat in the nature of a paradox for these issues have fallen from grace in the most booming period the industry has ever known and despite the prospect of an even greater production boom ahead. An explanation of the anomaly is not far in seeking, however, for the plane builders are facing a number of difficult problems.

First, there are engineering and managerial posers to be met in connection with expanding further an already greatly expanded output; the matter involves adoption of something approaching assembly line methods, standardization of models, enlargement of trained personnel, construction of additional plant capacity, etc. There is also the problem of financing this program which, in turn, is complicated by such factors as increasing competition from sources outside the industry, principally in the automotive field, and, most vexing of all, uncertainty as to future profit margins.

Perhaps "uncertainty" is not the right word, for it is now almost a sure bet that aircraft profits cannot continue indefinitely at their present high unit levels. Currently and for some time past operations of the industry's larger concerns have been sustained for the most part by orders from abroad, orders carrying much wider margins than have ever been obtainable on domestic business either commercial or military.

Prior to the beginning of the Nazi offensive in May, it was widely expected that the war would be a long drawn out affair and that a cessation of Allied plane buying in the relatively near future was not likely. Now, with France fallen, the pros-

pect of settlement of the issue between Britain and Germany through a short, intense, decisive action looms as an imminent probability. In short, it is now readily conceivable that, before the summer is out, deliveries to Britain may be terminated.

The risk here is not that the aircraft companies will be left with partially completed planes on their

many expenses are not permitted for purposes of calculating costs on Government contracts, actual profits will not be more than 4 to 5% just as actual profits under the former 12% limit have not run more than about 8%. Thus, net incomes approximating 17 or 18% of sales volume, such as were realized last year by such companies as United and Martin in reflection of their predominant foreign business, would be drastically reduced.

This whole matter, however, still remains very much in a state of flux and there is reason for hope that it will work out considerably more advantageously to the aircraft companies than indicated above. Though now in force with respect to all new Government plane contracts, the new limitations on profits are of no immediate consequence to the aircraft companies since the industry continues to sell most of its output to Britain. There is the growing possibility, moreover, that the newly established profit limits will be withdrawn before their effects are felt. It would not be at all surprising to see the measure embodying them repealed with the passage of the proposed excess profits tax. Even so, of course, the industry would be

subject to a substantial shrinkage in profit margins with the termination of British business, but probably not as severe as under the present law.

As for first half results, shipments of the leading units in the industry have been gaining steadily from month to month and for the period as a whole probably approximated \$225,000,000 in dollar value. Output remains small, however, in relation to unfilled orders which now total in the neighborhood of \$1,250,-



Courtesy American Airlines

hands for these would undoubtedly be taken by our own Government. It is rather that on future business, entirely domestic and largely for the Government, profit margins would be far less than at present.

For under the lately amended Vinson-Trammell Act, allowable profits on Federal plane contracts have been reduced from 12% to 8% on those placed through competitive bidding and to 7% on those awarded through negotiation. Moreover, because

000,000, or better than two and a half years' production at the 1940 first half rate. It is also small in relation to the goal of 50,000 planes annually set by the President. At present the industry's annual rate probably does not amount to 15% of that figure; moreover, existing capacity will have to be at least doubled and perhaps tripled before a 50,000 annual production rate can be achieved. Plans are already afoot by individual producers, however, for construction of new facilities that will increase the industry's capacity about 100 per cent.

The increase in deliveries over the

past six months was matched in the case of most companies by corresponding earnings gains, though some lagged behind a year ago. Delay in the placing of Allied orders was partly responsible, while difficulty in obtaining engine deliveries also held up production in some instances.

The air transport companies have little in common with the aircraft manufacturers with respect to principal profit determinants. Their revenues continue to expand rapidly and their profits even more so. Unlike the manufacturers, moreover, they stand in virtually no danger of any

specific restrictions on profits other than those that will be applicable, under the coming excess profits levy, to all businesses. It is quite possible, however, that this measure, without being necessarily discriminatory, may hit the airlines harder than the general run of industrial enterprises. This would certainly be the case if the tax is based upon earnings in excess of average profits over a recent period of years, since earnings expansion in the industry has been rapid of late. In some instances, also, profits are rather high in relation to invested capital, an unfavorable (Please turn to page 489)

Position of Leading Aircraft and Air Transport Stocks

| | Earned Per Share | | | Dividends (f) | Market Rating | COMMENT |
|-------------------------------------|------------------|---------|---------|---------------|---------------|--|
| | Full Year 1939 | 1940E | 1939 | | | |
| American Airlines..... | \$4.15 | \$2.50 | \$1.37 | None | A-3 | Due to high return on capital and recent rapid earnings growth company may be especially vulnerable to excess profits tax. |
| Aviation Corp..... | d0.57a | d0.10b | d0.36b | None | A-2 | Recent purchase of Barkley-Grow Aircraft adds to company's stake in plane building; new "pancake" motor offers interesting possibilities in multi-motored craft. |
| Beech Aircraft..... | d0.25c | d0.23Ac | d0.19Ac | None | A-2 | Riding boom in private flying, company will show sharp sales gain this year. Unfilled orders now sufficient for one year's operation. |
| Bell Aircraft..... | 0.04 | NA | NA | None | A-2 | Recent wage increase raises operating costs. Company has licensed Northrop Aircraft to manufacture its Airacobra combat plane. |
| Bellanca Aircraft..... | d0.90 | NA | NA | None | A-2 | Upturn in profits expected this year. Company in experimenting with plastic plane construction. |
| Boeing Airplane..... | d4.55 | NA | d0.25 | None | A-2 | Delivery of Stratoliners to TWA probably aided first half earnings. However, company's profit record compares poorly with other leading units. |
| Brewster Aeronautical..... | 0.02 | NA | NA | None | A-2 | Transfer of operations to Newark Airport has facilitated operations. Large foreign order last month more than doubled backlog, bringing total to \$44,000,000. |
| Consolidated Aircraft..... | 1.79 | NA | NA | None | A-1 | Some 120 large bombers ordered by France last month have presumably been taken over by the British. Unfilled orders at record levels. |
| Curtis-Wright..... | 0.39 | 0.30 | 0.50 | None | A-2 | First half deliveries estimated at about \$45,000,000 against \$26,600,000 in like 1939 period. Present backlog probably around \$200,000,000. |
| Douglas Aircraft..... | 4.81a | 6.00b | 2.45b | None | A-1 | Unfilled orders currently in excess of \$140,000,000. Substantial commercial business should soften impact when military buying slackens. |
| Eastern Air Lines..... | 2.06 | 1.25 | 0.87 | None | A-2 | Possibility of new competition seen in recent application of Seaboard Airline to operate air routes from Boston to New Orleans and Miami. |
| Grumman Aircraft..... | 1.85 | NA | NA | \$0.50 | A-1 | Backlog continues to mount. Higher sales and earnings indicated for this year. Dividend policy has been fairly liberal. |
| Irving Air Chute..... | 2.32 | 1.40 | 1.09 | 0.50 | A-1 | Company is experimenting with Nylon parachutes for U. S. Army Air Corps. New high sales and earnings record this year virtually assured. |
| Lockheed Aircraft..... | 4.04 | 2.00 | 0.66 | None | A-1 | Produces some of the most popular combat models for export. Difficulty in obtaining engines has deterred production in recent months. Enlarging plant at Burbank, Calif. |
| Martin, Glenn L..... | 3.75 | 2.75 | 0.89 | 1.00 | A-1 | Backlog now totals more than \$110,000,000 plus undisclosed amount for new type of plane on order by Britain. First half deliveries around \$20,000,000 or four times year earlier figure. |
| North American Aviation..... | 2.06 | 1.10 | 0.81 | 0.50 | A-1 | Company is leading producer of trainers. Plant capacity substantially increased and larger sales and earnings indicated. Latest reported backlog was \$85,000,000. |
| Pan American Airways..... | 1.46 | NA | NA | None | A-2 | More and faster U. S.-South America flights have followed more frequent European schedules. Company offers long term growth potentialities. |
| Sperry Corp..... | 2.71 | 1.75 | 1.23 | None | A-1 | As leading instrument maker, company has important stake in defense program. New earnings peak forecast this year. Dividend policy is liberal. |
| Transcontinental & Western Air..... | d0.23 | d0.50 | d0.43 | None | A-2 | Proposed purchase of Marquette Air Lines ruled out by CAA. Introduction of new Stratoliners penalized recent earnings but improvement expected. |
| United Aircraft..... | 3.53 | 2.00 | 1.38 | 1.50 | A-1 | Foreign business still accounts for bulk of sales. Backlog remains large despite increasing pace of deliveries. Dividends this year should top 1939. |
| United Air Lines..... | 0.21 | 0.15 | d0.14 | None | A-2 | Company earned first half profit for first time. Traffic gaining rapidly. Longer range plans for freight haulage under consideration. Air mail rates increased. |
| Waco Aircraft..... | 0.03c | NA | d0.09c | None | A-2 | Producing planes chiefly for private owner market, company's sales and earnings growth will outlast the boom in military craft production. |

†—Recommended for cyclical appreciation. E—Estimated. A—Actual. NA—Not available. a—Fiscal year ended November 30. b—Six months ended May 31. c—Fiscal year ended September 30. d—Deficit. e—Six months ended March 31. f—Paid or declared to date in 1940.

Texas Gulf Sulphur— Freeport Sulphur

**Large Foreign Demand Lifts Normally Stable
Earnings of Leading American Sulphur Producers**

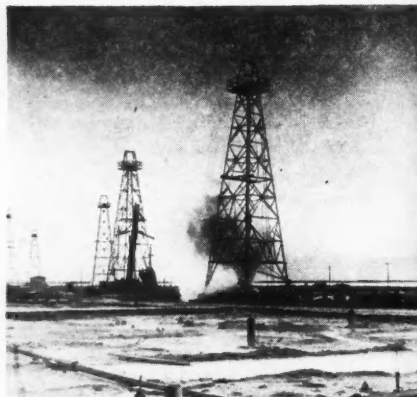
BY STANLEY DEVLIN

FREE sulphur, or brimstone, is found in but a few parts of the world in workable quantities and the United States has the largest deposits. As an accompaniment of volcanic activities, sulphur was first mined commercially in Italy and at a much later date in Japan where in each case volcanos continue to be active. But also in each case the size of the deposits has been relatively small and the cost of separating the brimstone from the surrounding materials has been high.

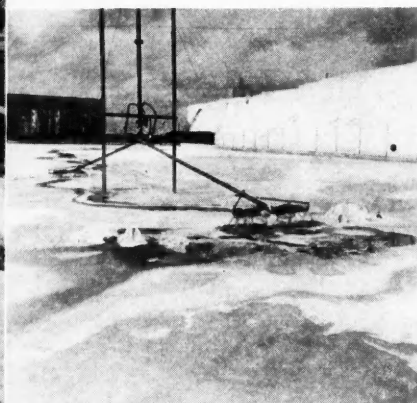
Undoubtedly American brimstone was the result of volcanic action in the vicinity of the Gulf of Mexico but the date of such action is unknown and is suspected of having been many thousands, if not millions, of years ago. Foreign brimstone is high cost material and its production is accompanied by many dangers, the greatest of which is the almost insurmountable one of hydrogen sulphide gas. In contrast, the American method of production entails no natural dangers, offers the possibility of almost complete recovery of all of the available sulphur and at the same time involves the use of a relatively small staff of workers. Production methods have been discussed at great length from

time to time in this and other journals so no great details are necessary in describing the American production method employed by both of the leading sulphur producers in this country. Suffice it to say that in order to produce the mineral it is but necessary to drill a well down to the sulphur impregnated rocks which lay anywhere from about 1,500 to 2,000 feet below the surface; pump down a constant supply of superheated water to melt the sulphur out of its rock and then retrieve the molten sulphur from the bottom of the well where it collects by gravity, pumping it to the surface where it solidifies in great piles awaiting future use. Since it is impervious to the action of wind and weather, sulphur keeps indefinitely in these open-air storage bins.

In the United States, due to the availability of ample supplies of brimstone, this is the form of sulphur most employed in the many processes which call for its use. Because of the higher cost and limited supply of sulphur abroad, brimstone plays but a relatively small part in manufacturing articles which utilize sulphur. Most of the sulphur so consumed is derived from metallic combinations of sulphur called pyrites.



Courtesy Freeport Sulphur Co.



From wells which look much like oil wells the molten sulphur is relayed to a common tank from which it is pumped to the storage vats where it dries to a rock-like hardness and is later broken up for shipping.

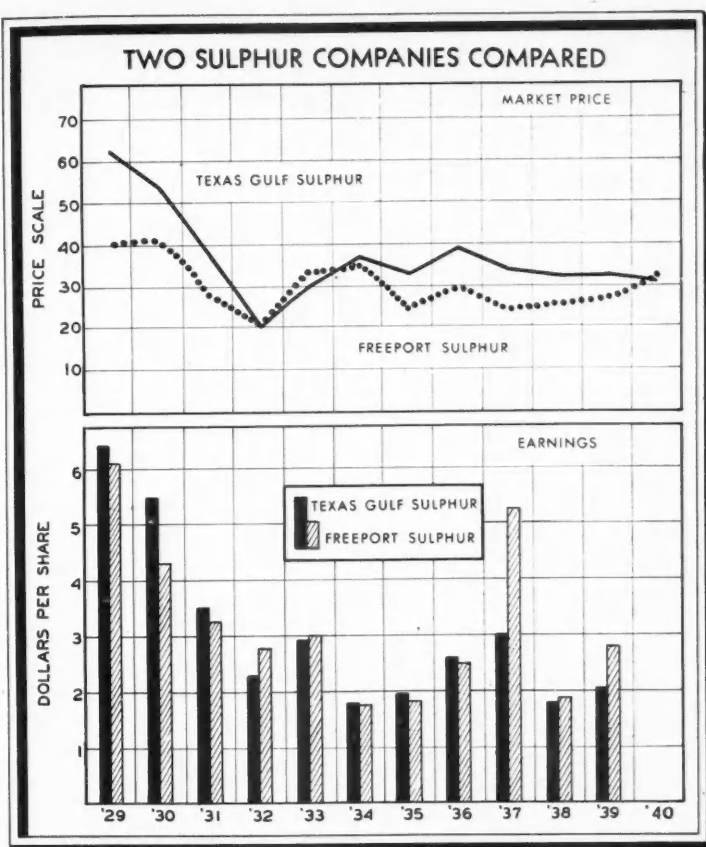
These pyrites are usually iron or copper and sulphur and when they are processed to recover the metals a by-product is an oxide of sulphur which is reduced to the purer element through another process or used as it comes from the smelters to make sulfuric acid or other sulphides or sulphates.

Spain and Scandinavia are the major sources of pyrites while Italy is the sole European source of brimstone. Of the estimated 350,000 tons per annum produced by Italy, about 100,000 tons are consumed in that country while the balance goes to Germany. Now that the best part of the pyrites mines are either in the hands of the Germans or the production is controlled by them there is little likelihood that other foreign nations will be able to secure adequate supplies of sulphur from their accustomed sources of supply and therefore must come to this country for them. The potential volume of such demand may be ascertained from the fact that nearly 52 per cent of the sulphur consumed in the world prior to the beginning of the war was obtained from pyrites, about 9 per cent came from waste gases of petroleum refining and similar activities while about 39 per cent was brimstone.

Consumption of crude sulphur in the United States during 1939 is estimated to have exceeded 1,500,000 tons. Shipments for the year, however, totalled 2,237,000 tons thus indicating that at least 700,000 tons were exported. Domestic consumption continues to rise slowly but foreign shipments are now running at about 50 per cent or more above those of a year ago and promise that the American sulphur industry may have the best year of its varied history. Admittedly, the sharp upsurge in demand for American sulphur is in great part war engendered but the longer term domestic industrial demand is also on the increase. In recent years the petroleum industry—formerly the largest single consumer of sulfuric acid—virtually abandoned the use of this material in its refining processes. With the increase in demand for aviation fuel, petroleum refining methods once again call for the use of extensive quantities of sulfuric acid with the result that this industry is rapidly becoming the largest consumer of this acid.

The steel industry is also a great consumer of sulfuric acid as a pickler of steel materials and other scale removing activities. With activities ranging close to 75 per cent of production capacity on average for the first half of the year and a promise of even higher rates for the balance of the year, great quantities of sulfuric acid will be needed with a consequent increase in the need for brimstone. The paper industry, paint makers, rubber vulcanizers and many other industries who use sulphur or sulphur products in their manufacturing processes are all extremely active and will also need considerable quantities of sulphur during the year.

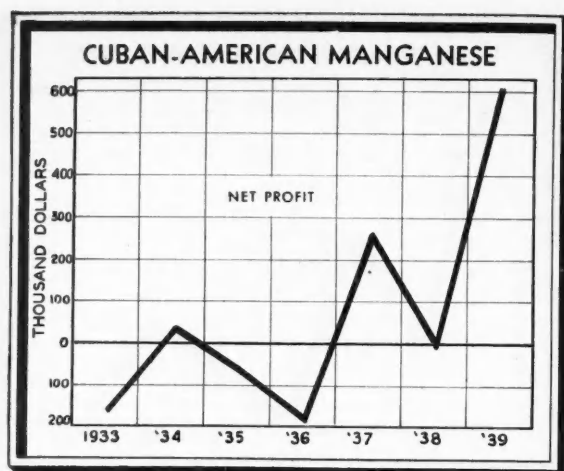
Despite the sharp increase in the needs for sulphur by American industry in general there is likely to be little change in the current price of \$16 a ton established late



in 1938 after an unbroken price level of \$18 a ton for the previous 12 years. The only thing that is likely to boost the price of sulphur is another increase in the state taxes levied by both Texas and Louisiana as a separation tax and an advalorem tax on sulphur already above ground. In the case of Texas Gulf Sulphur, the separation tax is now \$1.03 a ton while the Louisiana tax which was \$2 a ton, was reduced to the same amount as in Texas by a voters' referendum in 1938. There is little chance that there will be further reductions in the amount of state taxes for it was only a year ago that Texas legislators started to raise the sulphur tax to \$2 a ton although the movement came to naught at the time. Sulphur producers estimate that at least 8 per cent of their selling price is absorbed by state taxes alone.

Higher fuel costs are about the only thing that might add further to the cost of sulphur for great quantities of fuel are needed in the production of the element. However, labor costs are relatively small for the greatest expense of mining sulphur is the equipment and after that is installed operations are carried on with but few helpers. Then too, if it is found impossible to make a profit under rising operating costs and taxes, the two major sulphur producers can hold new production at a minimum while making shipments from the vast stores of sulphur already above ground and accruing taxes while waiting to be sold. With the nearer term favorable outlook of the sulphur industry apparently assured, a comparison of the two largest American sulphur producers is in order.

Of the two companies, Texas Gulf Sulphur Co. is the



Distribution of Each Dollar of Gross Income in 1939

| | FREE-PORT | TEXAS GULF |
|---|-----------|------------|
| Freight and handling..... | \$.09 | .... |
| Operating costs..... | .58 | .... |
| Total operating and delivery costs..... | \$.67 | \$.44 |
| Administrative, selling and general expenses..... | .08 | .08 |
| Depletion, depreciation, amortization, prospecting and contingencies..... | .07 | .06 |
| Federal and State income and capital stock taxes..... | .02 | .05 |
| Net income..... | .16 | .37 |
| | \$1.00 | \$1.00 |

largest; producing about twice as much sulphur as Freeport Sulphur Company. Both companies operate in the Gulf section of the United States and face approximately the same operating conditions. The largest of the sulphur deposits is said to be the Boling Dome mound, controlled by Texas Gulf Sulphur and reputed to have at least 36,000,000 tons of recoverable sulphur. Freeport Sulphur's main producing domes are the Hoskins Mound at Freeport, Texas, and the but slightly smaller Grande Ecaille property in Louisiana. Both companies have options on several smaller, but as yet undeveloped properties. The estimated life of Texas Gulf Sulphur's reserves is approximately 35 years while those of Freeport Sulphur are believed to contain sufficient sulphur to maintain operations at approximately current levels for the next 25 years or so. Depletion is a very real problem for the sulphur companies for unless new reserves are discovered in the meantime, exhaustion of the mines will mean complete liquidation as was the case with U. S. Sulphur Co., once the leading sulphur producer of the country.

While Texas Gulf Sulphur is almost completely dependent upon sulphur for its income, Freeport Sulphur is in a somewhat more fortunate position. The last war showed that the United States was woefully dependent upon foreign sources for adequate supplies of manganese, the element used to stiffen steel. While there were some manganese deposits in the United States, the total out-

put was equal to only approximately 10 per cent of the steel industry's needs and the balance had to be imported from Russia, Brazil, Africa and India. After a long study of the problem, Freeport Sulphur decided to buy a large deposit of very low grade manganese ore located in Cuba and started in to commercialize it. The ore was of such low grade that most other prospectors passed it by as unworkable but by dint of much hard work and expenditure of money and time, Freeport has eventually made the ore suitable for use in American steel making with the result that Cuba is now supplying almost 25 per cent of this country's needs of manganese. Profits accruing from this branch of Freeport Sulphur's business are not as yet large but the manganese producing subsidiary reported a net profit of \$601,690 last year; the largest by far of any previous year and equal to better than 70 cents a share on Freeport's relatively small amount of common stock outstanding.

Production of manganese will likely be the source of increasing revenue to Freeport Sulphur but there are several uncertainties here as well as in the sulphur end of the business. Perhaps the major uncertainty is the political instability of Cuba which might at some future date become inoculated with the expropriation virus so prevalent in Mexico and other Latin American countries. The other major uncertainty is the universal question of taxes which, if anything, are likely to become higher and higher as time goes on. While it is probable that future administrations will look with disfavor upon any further invasion of American rights in Latin America and thus reduce the tendency of Latin politicians to grab what they can at American expense, there is little that can be done on the tax angle so that this feature will continue to exert its unwelcome influence upon the outlook for Freeport Sulphur's foreign properties.

The export problem is solved by both sulphur companies through the joint ownership of the Sulphur Export Corp. This affiliate sells sulphur for both companies—equal amounts from both producers—to all foreign countries except Canada, Newfoundland and Cuba. With export demand said to be currently exceeding available shipping facilities, these markets are of great—although perhaps only temporary—importance to both Freeport Sulphur and Texas Gulf Sulphur.

Sulphur production costs of both companies, with the exception of royalties, is approximately the same for they both use the same methods. Royalties, however, make a sharp difference in the final net income. Both Freeport Sulphur and Texas Gulf Sulphur are now operating properties acquired on a royalty basis which, in the case of the Hoskins Mound property of Freeport calls for payment of \$1.06 per ton of sulphur mined to the fee owner and 70 per cent of the net profits, after payment of the fixed royalty, is payable to Texas Co., sublessee of the property. Freeport's Grande Ecaille properties call for royalty payments of better than \$1 a ton; the amount varying with the selling price of sulphur from time to time. Texas Gulf Sulphur still has some smaller royalty agreements along the same line as Freeport Sulphur but the main lease on the Boling Dome and Long Point properties was acquired from the Gulf Oil Corp. through the exchange of 1,300,000 shares of Texas Gulf stock and the payment of \$650,000 in cash for the assets of Delaware Gulf Oil Corp., a (Please turn to page 495)

Interlake Iron Corp.

High Cost Producer of Pig Iron May Make a Better Than Usual Showing

BY GEORGE W. MATHIS

INTERLAKE IRON CORP., with an annual production capacity of 1,215,000 gross tons of pig iron, is the largest producer of merchant pig iron in the country but not only does the company rarely operate at even close to peak capacity but, in addition, profitable operations—after deduction of heavy fixed charges—are even rarer.

Obviously, a company which specializes in the making of a material that is in particular demand for the manufacture of capital goods, is strongly affected by the conditions which prevail in the capital goods industries. As is well known, conditions in such industries since 1929 have seldom been good and for long periods have been considerably worse than even the most pessimistic of prophets could have predicted in the years prior to the depression.

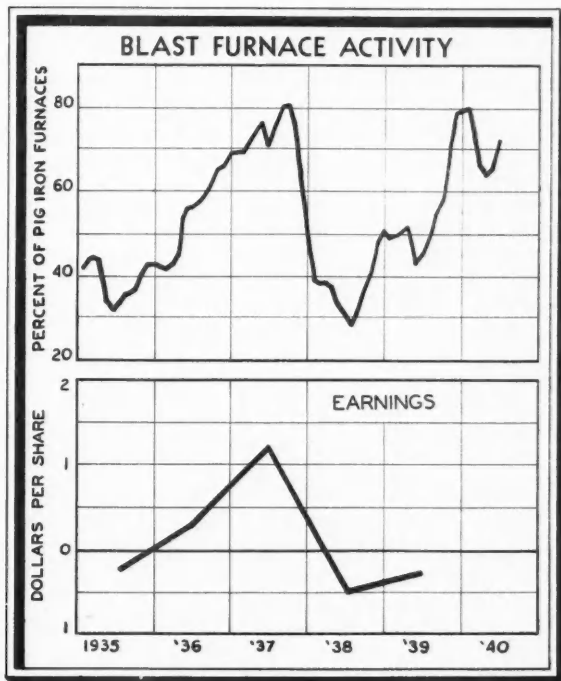
And if the largest users of pig-iron would come to the company for their needs there would not be such a lag between the improvement of the demand for capital goods and a betterment in Interlake's business but since many of the large consumers—steel companies especially—make their own pig-iron from their own ores and coal, Interlake must wait for the betterment to reach the smaller consumers of pig-iron before the business picks up. As a case in point, Interlake's business did not get really good until the last quarter of 1939, and then operations reached about 60 per cent of capacity at a time when the entire steel industry was running close to 94 per cent of capacity and some of the specialty companies were operating at 100 per cent.

As the largest independent producer of pig-iron—and incidentally of coke and its by-products as well—sales reach substantial figures during fairly active years. Last year gross sales totalled \$17,022,424 after the deduction of commissions, discounts, returns and other allowances, and net income before depreciation but after all other charges, would have been equal to about \$0.35 a share of common stock. However, depreciation charges of \$1,274,273 eliminated the profit and the final result was a loss of about \$0.28 a share on the 2,000,000 shares of common stock then outstanding. This was, however, somewhat better than the year before when a loss equal to \$0.51 a share was reported after deducting depreciation charges of \$1,170,367. Sales in the first quarter of 1940 were about 23 per cent better than in the same period of 1939 but the gain was insufficient to offset the 17 per cent increase in depreciation charges with the

result that the company reported another deficit, although this one was only \$0.05 a share as compared with \$0.18 for the initial quarterly period of 1939.

Despite continued annual losses—in seven out of the past ten years—the financial position of the company continues to be fairly strong. At the close of last year, current assets shown at \$14,698,037 were better than six times larger than total current liabilities which were carried as \$2,346,121. Of the current assets, cash items were equal to \$1,342,301 while inventories of \$11,683,057 were approximately at normal levels. While inventories have usually been in the vicinity of the 1939 figure they were nevertheless high in relation to the company's sales of \$17 million in 1939 and \$11 million the year before.

The capitalization is relatively heavy for a business whose operating costs are apparently high. A \$9,450,000 convertible debenture issue, carrying a 4 per cent coupon was issued in 1937 and while (Please turn to page 496)



For Profit and Income

Investment Newcomer

The investment debut of **Philco Corporation** with the recent offering of 325,000 of its common shares was an event of particular interest to the stock-owning public. Not that the company is by any means the biggest in its field—**Radio Corporation's** 1939 sales, including revenues of its broadcasting chains, were nearly two and a half times as large—but Philco's profit record stacks up favorably with the best. Giving effect to retirement of its \$5 preference stock with proceeds of 150,000 of the common shares just sold (the remaining 175,000 represented private holdings), the company's capitalization

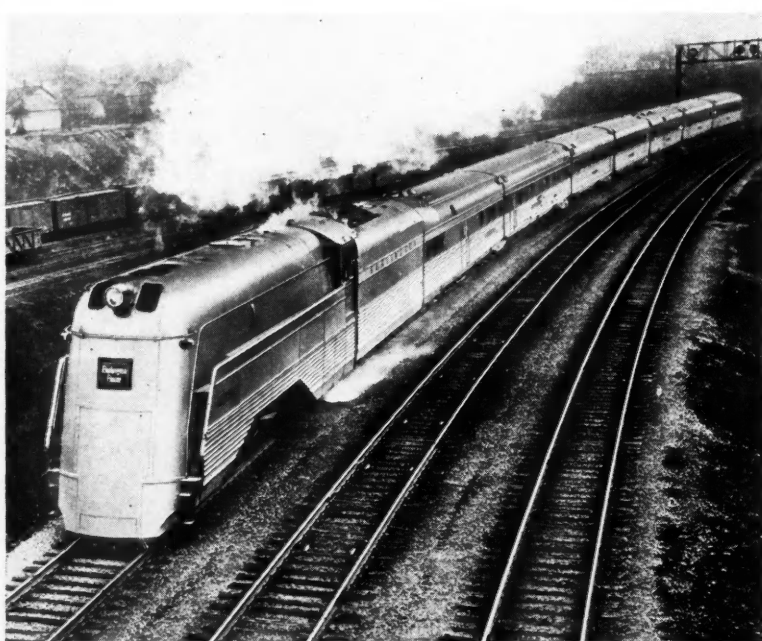
consists solely of 1,371,100 shares of common. On this capitalization 1939 net income amounted to \$1.37 per share. Improvement in the first quarter of this year was such, however, that for the twelve months ended March 31, 1940, per share results were \$1.72, comfortably in excess of any recent calendar year; also, this rate of gain is understood to have been fully sustained in the second quarter.

Philco was organized 48 years ago to manufacture arc lamps and storage batteries but its activities have since been considerably extended. Radios, of course, are now by far the biggest item, 58.6% of 1939 sales having been in home sets and 18.7%

in auto sets. Next most important line is refrigerators which, however, accounted for only 7.7% of last year's sales. The company also produces radio-phonographs and record players, portable air conditioning units, storage batteries and dry cells. It is prepared to begin the production of television receivers and FM radio sets as soon as the market is ready.

Rail Bonds

Recent activity and strength in railroad bonds, particularly second grade obligations, calls attention to the interesting speculative possibilities of such issues over the intermediate future in the light of business and tax prospects. Although a temporary letdown this summer would not be surprising, it now seems more than likely that the national defense program is going to stimulate a business boom of considerable proportions and that this boom, in fact, is already under way. The implications in this connection are clear enough as regards revenue prospects for industry at large and the rails in particular. As far as equity shareholders of any given enterprise are concerned, however, the extent to which increments in gross will be carried through to net will be restricted in greater or lesser degree by the prospective excess profits tax. Bondholders, on the other hand, stand to reap the full benefit of increased interest coverage as a result of business betterment. Holders of second grade rail obligations are the most obvious prospective beneficiaries though this factor will be operative, of course, with respect to the



One of Chicago, Burlington & Quincy's new Zephyrs.

bonds of other heavy industry companies likely to benefit saleswise from an armament stimulated business boom.

Cigarette Volume

Ever since the depression, when low priced brands won many a cigarette user away from his previous favorite brand, smokers have shown a marked tendency to switch readily from one make to another. Moreover, it is the older established brands that have suffered thereby. The three leaders, accounting for 90% of total sales a decade ago, are now reduced to around 72% of the market. Today it is estimated that **Reynold's Camel** is still ahead with about 26%, though **American's Lucky Strike** has been gaining and now accounts for around 25% of overall sales; **Liggett & Myers' Chesterfield** is next with approximately 21% of sales while **Philip Morris** remains in fourth place with from 6 to 7%. **Pall Mall**, introduced by a subsidiary of **American** and 20% larger than the standard cigarette, continues to make progress that is watched with interest by the rest of the industry, but neither **Reynolds** nor **Liggett** have yet followed suit though a number of other concerns have placed outsize cigarettes on the market.

Advertisers Please Note

The excess profits tax, passage of which is anticipated before the year-end, is not looked upon as an altogether unmixed evil by publishers, radio broadcasters and other proprietors of advertising media. In many instances, it is believed, imposition of the levy will lead to substantially increased outlays for advertising, the idea being that those business concerns which find themselves especially vulnerable to the tax will prefer to plow back larger portions of gross profits into sales promotion or institutional publicity with the prospect of a later return on the investment in the form of increased volume or goodwill rather than to turn over an inordinately large share of earnings to the Government. Some such tendency was apparent when the undistributed profits tax was in effect, though at that time an unduly heavy tax liability could also be avoided by the

Corporate Briefs

First half earnings of U. S. Rubber are estimated to have been in the neighborhood of \$1 per share as compared with \$1.18 reported for the initial six months of 1939. Though sales rose by approximately 13%, higher taxes, both domestic and foreign, proved a more than offsetting factor. Part of the sales gain was attributable to the acquisition of **Fisk Rubber** last December.

Nash-Kelvinator is well along with its \$6,500,000 plant expansion program preparatory to the introduction this fall of a new model to compete in the low price field. Refrigerator sales have reached new record levels and for the quarter just closed it is expected that the company will report net income equal to about 16 cents a share as compared with 9 cents for the first quarter and 2 cents for the June period of 1939.

Despite lower gasoline and fuel oil prices during the first half of 1940, **Pure Oil** is understood to have turned in the best operating results for the period since 1937. After provision for higher taxes pursuant to the emergency defense program, net is estimated at about 64 cents per common share or more than five times the 12 cents per share earned in the first six months of last year. Most of the improvement is attributable to first quarter operations.

An outstanding victim of higher taxes in the second quarter of 1940 was **Johns Manville** whose total kick-back to the government both here and in Canada was nearly three times that of a year ago. Thus, despite the best sales volume for the period in a decade, earnings rose only to \$1.15 per share from \$1.12 for the like quarter of 1939.

Provision for increased taxes was also an important factor in **du Pont's** second quarter results. Earnings from chemical operations amounted to only \$1.12 per share versus \$1.37 in the March quarter. Including returns on its **GM** investment, the company earned \$3.28 for the full first half against \$3.21 for the initial six months of 1939.

American Cyanamid reports that, pursuant to the requirements of the defense program, it is increasing by about 100% its acrylo-nitrile production capacity. Acrylo-nitrile, of which **Cyanamid** is currently the nation's chief producer, is one of the main ingredients, together with butadiene derived from petroleum, of synthetic rubbers of the **Buna** type.

Among the select few companies to establish new earnings records for the first six months of the year is **Eaton Manufacturing** whose net is estimated at about \$2.70 per share as compared with \$1.83 for the corresponding months of last year. The improvement reflects increasing volume in airplane engine parts as well as a continued favorable sales trend in automotive parts.

distribution of earnings to stockholders. Another possible way out is the appropriation of increased funds for product research and developmental work calculated to pay off at a later date. Of course it is just possible that Congress will scotch the whole idea by inserting in the tax bill restrictions on such appropriations for tax purposes, based on the practice of each individual company in recent years.

Textile Outlook Brighter

The textile industry, almost never overly prosperous but currently comparatively well situated, seems likely to continue a brighter spot in the general business picture in coming months. **Cotton mills** are not encountering anything exactly phenomenal in the way of demand just at present but, with relatively low stocks in the hands of mills and distributors, the statistical situation is sound and the makings of an upturn are apparent; current operating rate is somewhat below 90% of capacity as against a top of 102% reached last winter. **Woolen mill** output has been in an uptrend since May and the current backlog in this division

is about 31% ahead of a year ago; the defense program is a factor here and will continue to be such. As usual, the star performer of the group is the **rayon industry** whose sales are running at record levels and whose profits are up a good 100% from last year. Despite the need for plant expansion, dividend payments of leading units are likely to be increased this year.

Odds and Ends

Crude oil price reductions by two important buyers in Texas, apparently forced by the low level of prices for refined products, suggests that curtailment in crude output came too late to save the situation for producers. *** **Steel orders** from abroad have shown little change from the 20-year record volume of May despite the fall of France. Britain has taken over the latter's orders and is currently buying for its own account at a rate of about 400,000 tons a month. *** Despite their normal heavy dependence on foreign business (exports ordinarily run about 30% of total sales), the **carbon black companies** continue to do well.

What's Ahead for Reynolds Tobacco?

**Sales of Camels May Continue to Decline Moderately,
But Higher Selling Prices and Lower Tobacco Costs
Will Offset Higher Taxes and Increase Profit Margins**

By PHILIP DOBBS

WHILE Reynolds Tobacco is the smallest of the "Big Three" in point of invested capital, its Camel cigarettes continue to outsell any other brand and last year the company ranked ahead of any of its competitors in the volume of total sales while net income was but slightly more than 3 per cent below that of American Tobacco Co., the admitted leader of the tobacco industry.

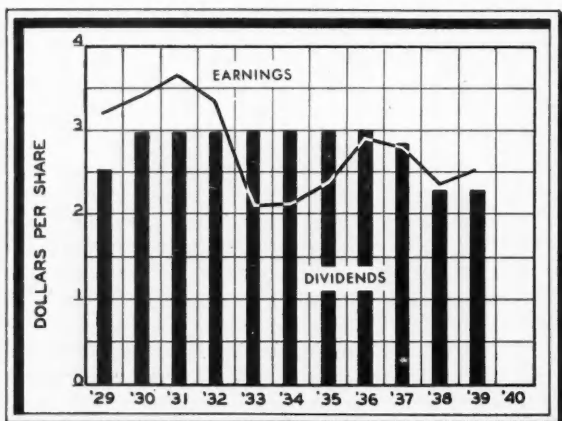
The gain in net income of \$0.19 a share in 1939 which brought the year's earnings up to \$2.56 a share was not, however, the result of an increased demand for Camels and Prince Albert smoking tobacco but rather represented a better control of costs and, perhaps, a somewhat smaller expenditure for promotion. As a matter of fact, Camel consumption declined about 2½ per cent in 1939 from the year before and continued the downtrend established in 1938 after having achieved a new high level in 1937. Nevertheless, the estimated consumption of 40 billion Camels last year was equal to that of 1929 and there is no indication that consumption will again drop to the 24.6 billion level reached in 1932 when the tobacco companies saw fit to raise prices in the face of the worst reduction in public buyer power that the country had ever seen.

Despite the fact that Camels have been slipping in point of volume of consumption, this brand still leads

the field by a slim margin. Brand preference fluctuates with each new advertising campaign and since American Tobacco continues to press its popular Lucky Strike brand with every advertising medium at its command, sales of Luckies are rising and consumption last year is estimated to have been but half a billion below that of Camels. Last year Lucky Strike consumption was at a peak for the past 8 years, and while they never did achieve the highest level of Camels, Luckies were nearly 10 per cent above 1929 levels and are still climbing.

In fact, Luckies were the only cigarettes of the three largest selling brands to show a gain over a year ago. Cigarette consumption as a whole hit a new high point of more than 172.4 billion units in 1939 as compared with 163.7 billion in 1938 but most of the increase in consumption is accounted for by the continued swing to Philip Morris and the numerous 10-cent brands. The 10-cent brands were at the peak of their consumption in 1939, accounting for 30 billion out of the 172.4 billion cigarettes consumed but it is probable that subsequent developments such as the increase in Federal taxes from 6 cents to 6½ cents on a package of 20 cigarettes and the undoubted ability of many cigarette consumers to purchase a somewhat better quality cigarette now that consumer incomes are rising, all militate against the popularity of the 10-cent brands which normally are in greatest demand in times of high cigarette prices or lowered consumer buying power.

In order to meet the additional excise tax impost which amounts to \$0.25 a thousand cigarettes of normal size and tobacco content, Reynolds Tobacco Co. and Liggett & Myers have raised the prices of their cigarettes to the wholesaler. Reynolds advanced the price \$0.28 a thousand which would, after the allowance of usual trade discounts, just about compensate for the additional tax. The balance of the trade has not as yet announced any increase in prices, but it is probable that they will do so after the effects of the Reynolds increase can be studied. Retailers have not indicated what course they intend to pursue but in the populous New York City area, the removal of the city sales tax on cigarettes at the time when the new federal rate became operative, has allowed





These machines count out twenty Camels from their hoppers, wrap them in foil, build a package around them, put on the revenue stamps and then wrap and seal the packages in cellophane.

the dealers to reduce their retail prices by $\frac{1}{2}$ cent a package while still making up for the increase in the wholesale cost. However, because of the ease with which the cigarette tax can be collected there is little possibility that such levies will ever be reduced. Indeed, it is quite possible that they will be further increased as more and more States add their cut to the already heavy burden which now amounts to not less than 50 per cent of the normal retail selling price of the popular brands.

Reynolds Tobacco is fortunate in having a very popular smoking tobacco as a stabilizer for its more volatile cigarette business. Reynolds' "Prince Albert" smoking tobacco is perhaps the largest selling brand in the country and is the only pipe tobacco sold by the company in quantities. When it is considered that about 20 per cent of all the tobacco consumed in this country is in the form of smoking tobacco as compared with approximately 50 per cent for cigarettes, the desirability of owning a popular smoking tobacco brand becomes immediately apparent. The excise tax on this form of tobacco is comparatively low and manufacturing costs are at a minimum. Tobacco costs fluctuate but they are not quite as important as in the case of cigarettes and as a result, profit margins are relatively stable and the product is a steady contributor to income. These profits average 18 per cent and in recent years, sales of manufactured tobacco are estimated to have been responsible for about 30 per cent of the aggregate earnings of the larger cigarette manufacturers.

The 1940 earnings prospects of Reynolds Tobacco are improved by the fact that last year probably saw the last of the high cost purchases of 1936 consumed. With tobacco costs spread out over a three year period it takes that length of time to work out any high cost

tobaccos acquired in unusual years. Reynolds' 1939 balance sheet showed inventories of tobacco valued at \$139,024,655 as compared with \$139,057,724 at the close of 1938 but the very small decline was probably occasioned by the fact that Reynolds had sharply increased the physical volume of tobacco supplies at what is known to have been the lowest average prices for almost 7 years. The low prices of 1939 are accounted for by the disruption of foreign sales of the raw leaf and while they may not be sharply higher this year, it would seem as if the medium term outlook is for a gradual rise. Tobacco purchased in 1939 and perhaps in 1940 will add to the ample stocks of low cost tobaccos in the cigarette manufacturers' hands and thus assure a satisfactory margin of profit for at least the next three years and perhaps beyond.

Inasmuch as a certain amount of Turkish tobacco is used in

all of the popular cigarette blends, there will be a slight increase in material costs after present ample stocks of Turkish are exhausted. New supplies continue to arrive, but shipping costs continue to mount and if any further trouble develops in Turkey it is probable that no more supplies will be obtainable. In such an event or if the costs of foreign tobacco get out of hand, the cigarette manufacturers plan to leave the foreign product out of their blend and educate the public to a straight American tobacco product that is even now preferred by the English trade and is being pushed by at least one American manufacturer at the present time.

The financial position of Reynolds Tobacco continues to improve. At the close of 1939 current assets of \$150,280,356 were approximately 11 times greater than total current liabilities of \$13,476,747. Cash items in excess of \$4,000,000 were ample for the company's purposes and since that date the first serial note of \$2,000,000 then reported as a current liability has been paid off. The payment of the first installment leaves a balance due of \$18,000,000 of the \$20,000,000 note issue that has recently been refunded upon a 1.75 per cent interest basis as compared with the original loan of 1938 which was placed at a 2.45 per cent interest rate. The balance of the loan is to be paid in 9 equal annual installments of \$2,000,000 each. Net working capital of \$136,803,609 was the highest of any year since the depression and serves to illustrate the improving position of the company.

The company's net sales in 1939 were slightly lower than in 1938 but they were, nevertheless, the highest of the "Big Three" and exceeded those of American Tobacco Co. by approximately (Please turn to page 494)

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In our War Economy Check-up at this time, we will weigh the following essential factors:

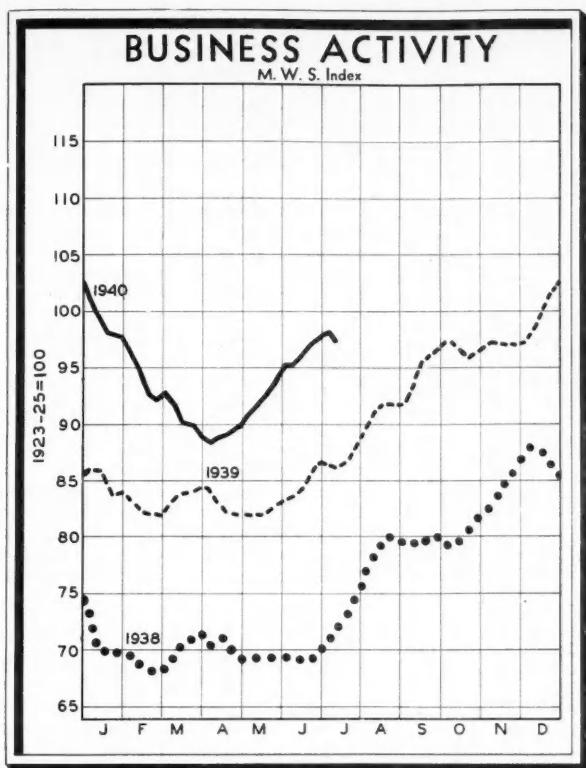
- ☐ Direct War Beneficiary
- ☐ Essential Industry
- ☐ Non-Essential Industry
- ☐ Profit Margins
- ☐ New Tax Levies
- ☐ Your Diversification
- ☐ Your Objectives

We will advise you what to buy, hold or sell. You may then take advantage of a specialized market and investment program under our constant supervision . . . according to your capital, wishes and objectives.

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We serve only in an advisory capacity, handle no funds or securities and have no financial interest in any issue or brokerage house. Our sole objective is the growth of your capital and income through counsel to minimize losses and secure profits.



CONCLUSIONS

INDUSTRY—Vacations and lower motor car production bring business dip.

TRADE—Sales of consumers' goods, both durable and nondurable, well above last year.

COMMODITIES—Most prices drift lower. Weather assumes major role in crop prospect.

MONEY AND CREDIT—Gold stocks and excess reserves reach new highs. Moderate increase in brokers' loans.

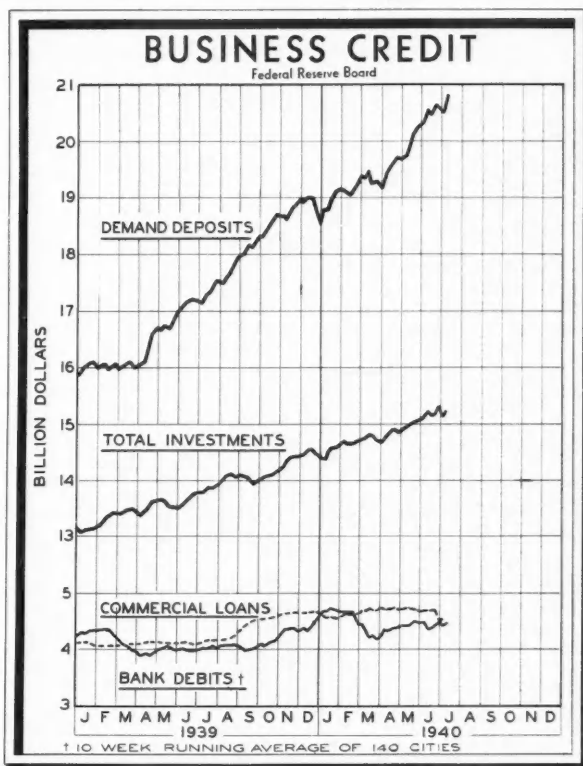
The Business Analyst

Having retraced more than 70% of the first quarter's recession, per capita **Business Activity** begins to show signs of hesitation at a level four points below the 1939 high. Part of the dip depicted on the accompanying graph was caused by a slump in check payments resulting from a lethargic stock market, and part may be due to unusually early vacations this year to clear the decks for subsequent rush work on the home defense program. These of themselves are merely transient depressants; but there is food for thought in the circumstance that the Federal Reserve Board's preliminary index of **Industrial Production** for June was three points higher than The Magazine of Wall Street's uncompensated index of **Business Activity**. This points to an excess of production over consumption which, according to experience gleaned from similar conditions in previous years, may foreshadow an approaching recession.

* * *

Except in the event of an early peace, there is little probability that any business setback in the near future would be severe or prolonged. Up to present writing, national defense orders placed since June 6 have amounted to over 1.6 billion dollars and contracts involving an additional 400 millions will be let within a month.

(Please turn to following page)



Again . . . Market Near A Decisive Move

THE next few weeks in the security markets may be of the utmost importance to you. The action you take can readily determine the status of your capital or equity.

Major forces now restricting the market will be crystallized . . . Germany's threatened invasion of Britain, proposed new taxes, Presidential campaigns and our Thirteen Billion Dollar Defense expenditures. By Labor Day, therefore, the next sustained and decisive market move should be fully under way.

Now is the time to prepare. Pin point fluctuations and traditional low volume have always preceded a sharp breakout. And, as you know, in today's markets, a week's time or even a single day, often means a tremendous difference in the value of your account.

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From formations like the present, very substantial profits have been taken by FORECAST subscribers. Shortly before Labor Day, last year, for example, our short term programs alone . . . Trading Advices, Bargain Indicator and Unusual Opportunities . . . quickly made available the following profits:

| | Points Profit | | Points Profit |
|-----------------------|------------------|-----------------------|------------------|
| Bethlehem Steel | 26½ | Vanadium Steel | 10½ |
| Amer. Smelting | 8 | Chrysler Corp. | 10 |
| Inland Steel | 16¼ | Hercules Powder | 17½ |
| St. Joseph Lead | 5¾ | General Motors | 8¾ |
| Republic Steel | 8 | Fairbanks Morse | 6¾ |
| Yellow Truck | 5½ | Bendix Aviation | 7 |

So that we may serve you at this time and in the vital period ahead . . . during the volatile and profit-making markets anticipated this fall, enroll with **THE FORECAST . . . NOW**. Only 5 points profit on a 25 share commitment will cover your subscription for a full year.

Fit Your Securities

to Today's War Economy

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You are welcome to continuous consultation service . . . by telegraph and by mail . . . also concerning the status of your broker. To expedite our reply, no more than 12 issues should be included in one inquiry.

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- ☐ Direct War Beneficiary
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Free Service to Labor Day!

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Cable Address: Tickerpub

NEW YORK, N. Y.

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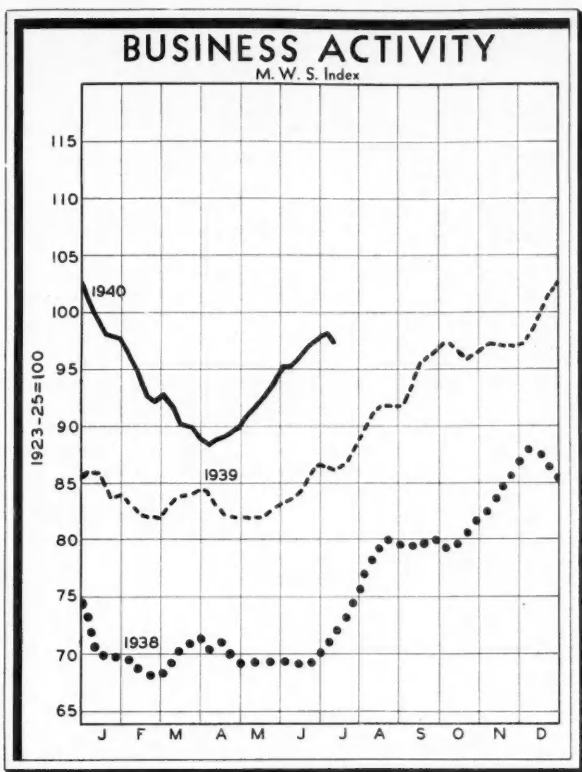
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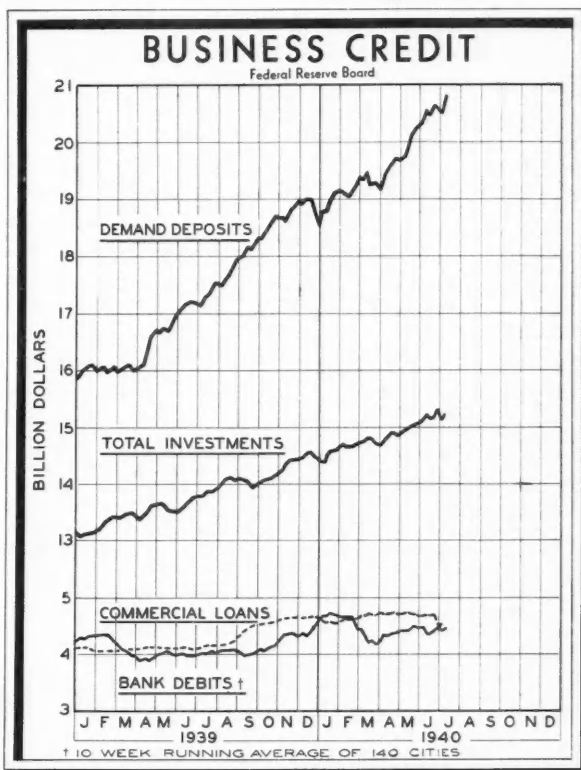
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(Please turn to following page)



Business and Industry

| | Date | Latest Month | Previous Month | Last Year | PRESENT POSITION AND OUTLOOK |
|--|------------|--------------|----------------|-------------|--|
| INDUSTRIAL PRODUCTION (a) | June | 114 | 106 | 98 | (Continued from page 481) |
| INDEX OF PRODUCTION AND TRADE (b) | | | | | |
| Production | May | 88 | 87 | 82 | |
| Durable Goods | May | 87 | 86 | 79 | Already appropriations for national defense have reached the thirteen billion mark, which is only a beginning. If ten billions of this, as now expected, can be put into actual circulation next year the pump priming effects should be impressive. |
| Non-durable Goods | May | 75 | 73 | 63 | |
| Primary Distribution | May | 94 | 93 | 89 | |
| Distribution to Consumers | May | 85 | 82 | 77 | |
| Miscellaneous Services | May | 92 | 91 | 90 | |
| | May | 91 | 89 | 83 | |
| WHOLESALE PRICES (h) | June | 77.3(pl) | 78.4 | 75.6 | |
| INVENTORIES (n. i. c. b.) | | | | | |
| Inventories | May | 131 | 130 | 111 | |
| New Orders | May | 112 | 101 | 90 | |
| Shipments | May | 111 | 111 | 92 | |
| COST OF LIVING (d) | | | | | |
| All Items | June | 86.4 | 86.0 | 84.7 | |
| Food | June | 81.7 | 80.6 | 77.9 | |
| Housing | June | 86.8 | 86.7 | 86.0 | |
| Clothing | June | 73.1 | 73.1 | 72.0 | |
| Fuel and Light | June | 84.2 | 84.1 | 83.4 | |
| Sundries | June | 97.0 | 97.0 | 96.6 | |
| Purchasing value of dollar | June | 115.7 | 116.3 | 118.1 | |
| NATIONAL INCOME (cm)† | May | \$5,647 | \$5,913 | \$5,432 | |
| CASH FARM INCOME† | | | | | |
| Farm Marketing | May | \$598 | \$562 | \$528 | |
| Including Gov't Payments | May | 626 | 627 | 608 | |
| Total, First 5 Months to | May 31 | 3,243 | | 2,949 | |
| Prices Received by Farmers (ee) | June | 95 | 98 | 89 | |
| Prices Paid by Farmers (ee) | June | 123 | 123 | 120 | |
| Ratio: Prices Received to Prices Paid (ee) | June | 77 | 80 | 74 | |
| FACTORY EMPLOYMENT (f) | | | | | |
| Durable Goods | May | 95.1 | 95.0 | 82.9 | |
| Non-durable Goods | May | 103.1 | 103.3 | 103.3 | |
| FACTORY PAYROLLS (f) | May | 96.4 | 96.3 | 85.0 | |
| (not adjusted) | | | | | |
| RETAIL TRADE | | | | | |
| Department Store Sales (f) | June | 93 | 87 | 86 | |
| Chain Store Sales (g) | June | 119 | 117 | 111 | |
| Variety Store Sales (g) | June | 126 | 121 | 118 | |
| Rural Retail Sales (j) | May | 133.8 | 125.4 | 131.2 | |
| Retail Prices (s) as of | July 1 | 92.9 | 92.8 | 89.1 | |
| FOREIGN TRADE | | | | | |
| Merchandise Exports† | May | \$325.3 | \$324.0 | \$249.5 | |
| Cumulative year's total† to | May 31 | 1,717.3 | | 1,179.8 | |
| Merchandise Imports† | May | 211.4 | 212.2 | 202.5 | |
| Cumulative year's total† to | May 31 | 1,082.3 | | 915.6 | |
| RAILROAD EARNINGS | | | | | |
| Total Operating Revenues* | 1st 5 mos. | \$1,650,784 | | \$1,482,510 | |
| Total Operating Expenditures* | 1st 5 mos. | 1,245,074 | | 1,158,959 | |
| Taxes* | 1st 5 mos. | 155,647 | | 142,611 | |
| Net Rwy. Operating Income* | 1st 5 mos. | 196,007 | | 126,456 | |
| Operating Ratio % | 1st 5 mos. | 75.42 | | 78.18 | |
| Rate of Return % | 1st 5 mos. | 2.33 | | 1.50 | |
| BUILDING Contract Awards (k)* | June | \$324 | \$328 | \$288 | |
| F. H. A. Mortgages | | | | | |
| Selected for Appraisal† | June | 109.4 | 129.2 | 101.5 | |
| Accepted for Insurance† | June | 84.4 | 79.9 | 82.3 | |
| Premium Paying† | June | 54.4 | 53.6 | 60.9 | |
| Building Permits (c) | | | | | |
| 214 Cities† | June | 96.2 | 110.2 | 99.3 | |
| New York City† | June | 18.8 | 16.1 | 21.6 | |
| Total, U. S.† | June | 115.0 | 126.3 | 120.9 | |
| Engineering Contracts (En)† | June | 252.8 | 282.3 | 268.4 | |

Already appropriations for national defense have reached the thirteen billion mark, which is only a beginning. If ten billions of this, as now expected, can be put into actual circulation next year the pump priming effects should be impressive.

Since business throughout the second quarter ran consistently ahead of the like interval last year, it is to be expected that earnings reports for that period, by and large, will make a favorable comparative showing, though probably not so good as indicated by the rise in sales. Factory hourly wages in May, for example, were 2% higher than for May, 1939, and unit labor costs have risen sharply over the past few months. Larger reserves also have had to be deducted for the higher taxes.

Factory orders booked during May were 10% larger than in April and 20% above the year's low in February; but 28% smaller than at the 1939 peak in October. Wholesale prices are at present 2½% above last year, with retail prices up 4.2% and raw material prices 11%. The cost of living has risen only 1.4%. Chain store sales in June were 7.3% ahead of last year, with variety stores gaining 5% and mail order sales rising 11%. Department store sales in the week ended July 6 were 7% above last year compared with a four-week's increase of 8%. Unit sales during June were 3% ahead of last year.

Carloadings, with a 14% margin of increase over last year, continue to establish new weekly high records for the current year. Virtually all major classes of freight show gains, with exception of wheat which is just beginning to be marketed following a late season. Eastbound rail freight for export during June was 64% above last year and within 25% of the World War peak. Mr. Ralph Budd, transportation member of the National Defense Advisory Commission, states that he does not intend to interfere in any way with railway management, and expresses the opinion that present rail resources, with equipment now under construction, will suffice to handle all home defense needs short of a general mobilization.

Building permits granted in May were 0.4% above last year, compared with a five-months' recession of 0.7%. Actual construction activity in May, as measured by the increase in employment in that field, was 4.2% ahead of last year. Construction contracts awarded during June in 37 states east of the Rockies were 13% ahead of the like month in 1939. It is estimated that around \$2,000,000,000 will have to be spent for new plant and equipment to handle defense expenditures of \$10,000,000,000 per annum. The major portion of this will be financed by private capital under the proposed tax revision permitting adequate write-offs for depreciation.

| | Date | Latest Month | Previous Month | Last Year | PRESENT POSITION AND OUTLOOK |
|-------------------------------------|---------|--------------|----------------|-----------|---|
| STEEL | | | | | Domestic retail sales of automobiles in the first ten days of July were approximately 50% ahead of last year. In order to clear the way for any demands upon facilities that may be made by the national defense program, the automotive industry is now beginning to taper production on current models in preparation for re-tooling. Assembling in most plants will have virtually ceased by the time this issue reaches our readers, and should rise to normal again by early October. |
| Ingot Production in tons* | June | 5,533 | 4,841 | 3,524 | |
| Pig Iron Production in tons* | June | 3,805 | 3,514 | 2,373 | |
| Shipments, U. S. Steel in tons* | June | 1,210 | 1,084 | 608 | |
| AUTOMOBILES | | | | | * * * |
| Production | | | | | |
| Factory Sales | May | 391,215 | 432,746 | 297,542 | |
| Total 1st 5 Months | 1940 | 2,083,892 | | 1,652,251 | * * * |
| Registrations | | | | | |
| Passenger Cars, U. S. (p) | May | 346,278 | 352,979 | 280,834 | |
| Trucks, U. S. (p) | May | 50,630 | 54,831 | 45,381 | |
| PAPER (Newsprint) | | | | | * * * |
| Production, U. S. & Canada* (tons) | June | 400.1 | 413.8 | 344.0 | |
| Shipments, U. S. & Canada* (tons) | June | 423.6 | 423.4 | 316.9 | |
| Mill Stocks, U. S. & Canada* (tons) | June 30 | 198.1 | 221.6 | 213.6 | |
| LIQUOR (Whisky) | | | | | * * * |
| Production, Gals.* | May | 11,504 | 11,223 | 7,972 | |
| Withdrawn, Gals.* | May | 5,848 | 5,793 | 4,866 | |
| Stocks, Gals.* | May | 482,553 | 477,865 | 478,741 | |
| GENERAL | | | | | * * * |
| Paperboard, new orders (st) | May | 517,221 | 480,250 | 372,893 | |
| Machine Tool Operations (pc) | June | 92.3 | 92.5 | 65.5 | |
| Railway Equipment Orders (Ry) | | | | | * * * |
| Locomotive | June | 31 | 20 | 8 | |
| Freight Cars | June | 4,235 | 2,081 | 1,324 | |
| Passenger Cars | June | 2 | 1 | 14 | * * * |
| Cigarette Production† | June | 17,565 | 16,275 | 16,595 | |
| Bituminous Coal Production* (tons) | June | 32,640 | 35,468 | 27,959 | |
| Portland Cement Shipments* (bb's) | May | 13,241 | 10,829 | 12,748 | |
| Commercial Failures (c) | June | 1,114 | 1,238 | 1,119 | Freight car orders in June were more than three times as large as for the like month of 1939. North American mill stocks of newsprint on June 30 were 3% lower than a year earlier; while production for the month rose 25% against an increase of only 19% for six months. Machine tool production in June, owing probably to vacations, was slightly below May; but 40% above last year in terms of rated capacity. |

WEEKLY INDICATORS

| | Date | Latest Week | Previous Week | Year Ago | PRESENT POSITION AND OUTLOOK |
|--|---------|-------------|---------------|----------|---|
| M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100 | July 13 | 97.2(pl) | 98.2 | 86.1 | Slowing down of automobile production in preparation for retooling, and early vacations elsewhere, have caused a little recession in electric power output to a level less than 7% above last year. By far the best showing on an annual comparison basis continues to be made by the Central Industrial and Rocky Mountain regions, which account for nearly 50% of the total. The Federal Power Commission is attempting to impose upon a licensee a rate structure based primarily upon "original cost," a theory rejected by decisions of the Supreme Court over a period of 44 years. |
| ELECTRIC POWER OUTPUT K.W.H.†..... | July 13 | 2,483 | 2,265 | 2,324 | |
| TRANSPORTATION | | | | | |
| Carloadings, total..... | July 13 | 740,465 | 636,901 | 669,888 | |
| Grain..... | July 13 | 56,015 | 47,586 | 59,332 | |
| Coal..... | July 13 | 127,403 | 103,272 | 107,118 | |
| Forest Products..... | July 13 | 31,615 | 25,038 | 31,426 | |
| Manufacturing & Miscellaneous.... | July 13 | 287,250 | 248,760 | 258,780 | |
| L. C. L. Mdse..... | July 13 | 146,960 | 127,240 | 150,553 | |
| STEEL PRICES | | | | | |
| Pig Iron \$ per ton (m)..... | July 16 | 22.61 | 22.61 | 20.61 | |
| Scrap \$ per ton (m)..... | July 16 | 18.38 | 18.71 | 15.04 | |
| Finished c per lb. (m)..... | July 16 | 2.261 | 2.261 | 2.236 | |
| STEEL OPERATIONS | | | | | |
| % of Capacity week ended (m).... | July 18 | 87.5 | 87.5 | 56.5 | |
| CAPITAL GOODS ACTIVITY (m) week ended | July 13 | 82.0 | 80.6 | 64.1 | |
| PETROLEUM | | | | | |
| Average Daily Production bbls.*.. | July 13 | 3,561 | 3,602 | 3,530 | |
| Crude Runs to Stills Ave. bbls.*.. | July 13 | 3,565 | 3,575 | 3,448 | |
| Total Gasoline Stocks bbls.*..... | July 13 | 92,372 | 93,275 | 79,263 | |
| Fuel Oil Stocks, bbls.*..... | July 13 | 77,120 | 76,494 | 85,114 | |
| Crude—Mid-Cont. \$ per bbl..... | July 20 | 1.02 | 1.02 | 1.02 | |
| Crude—Pennsylvania \$ per bbl..... | July 20 | 1.48 | 1.48 | 1.48 | |
| Gasoline—Refinery \$ per gal..... | July 20 | .06 | .06 | .06½ | |

* * *

Incoming orders for **steel** have exceeded shipments over the past few weeks; so that little recession in the operating rate is looked for over the next few weeks. Except on export orders, little steel for armaments is being turned out yet; but there is fair demand from railway equipment manufacturers, for inventory building and for plant expansion.

* * *

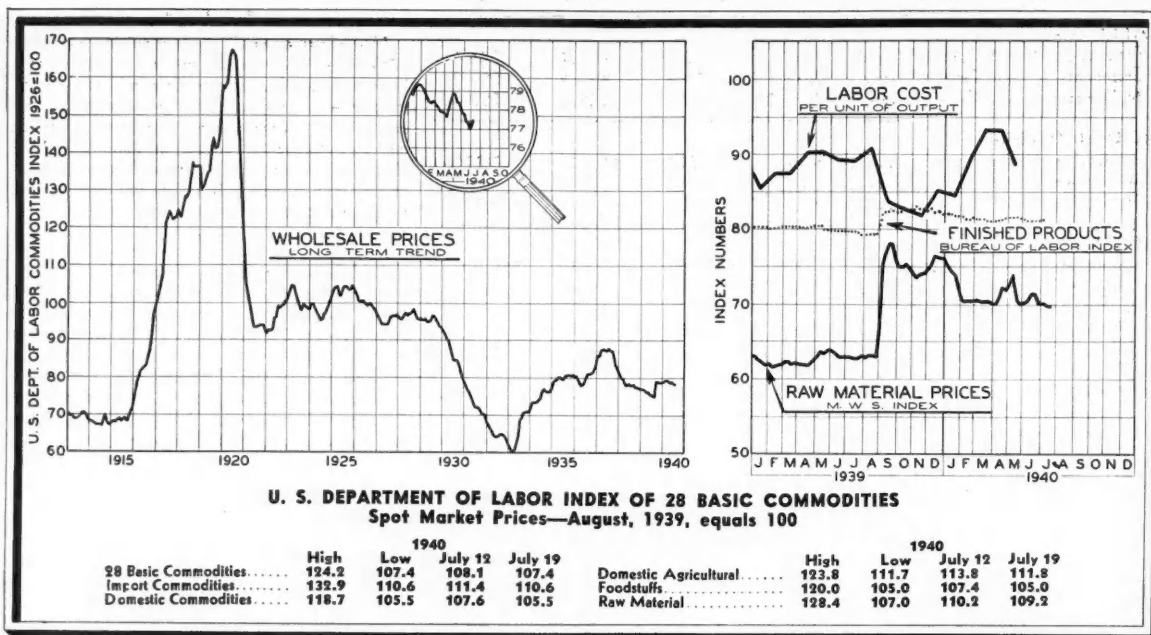
Heavy **gasoline** inventories led last week to lower prices for Texas **crude**. Second quarter profits in many instances were hurt by low gasoline prices, lower ocean tanker rates, reduced export sales, and larger reserves for Federal taxes.

†—Millions. *—Thousands. (a)—Federal Reserve 1923-25-100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923-100. (e)—Dept. of Agric., 1924-29-100. (ee)—Dept. of Agric., 1909-14-100. (En)—Engineering News-Record. (f)—1923-25-100. (g)—Chain Store Age 1929-31-100. (h)—U. S. B. L. S. 1926-100. (j)—Adjusted—1929-31-100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926-100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1936-100. (p)—Polk estimates. (pc)—Per cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930-100. (st)—Short tons.

Trend of Commodities

Despite the absence of heavy liquidation or sharp price declines, commodity prices continue to drift lower. Declines were registered by grains, and cotton, as well as cocoa and hides. Copper prices appeared vulnerable when a leading producer bid 10¾ cents for a large Navy contract. Rubber prices held against the trend. Buying interest has subsided noticeably in all commodities, apparently in response to warnings that the necessary delays in whipping the defense program into shape where actual orders would begin to make

some tangible contribution to general business might result in a temporary recession in industrial activity in the near future. Persistent rumors of peace negotiations have invoked the spectre of a sharp decline in commodity prices, particularly import commodities, in the event that the war ends in the near future. However, most commodities have retraced a considerable portion of the ground gained since last September, suggesting that an early peace—if it comes—is not necessarily drastically bearish on commodity prices.



| | Date | Latest Wk. or Mo. | Previous Wk. or Mo. | Year Ago | PRESENT POSITION AND OUTLOOK |
|--|---------|----------------------|------------------------|---------------|--|
| COTTON | | | | | |
| Price cents per pound, closing | | | | | Cotton. With the exception of 1938 and 1939, cotton acreage this year will be the smallest in forty years, but present indications are that the crop will be about on a par with last year. On this basis—11,800,000 bales—as much as 4,000,000 bales might remain after domestic requirements are met. Sustained domestic consumption would reduce the surplus somewhat, but with virtually the entire European continent under blockade export prospects are exceedingly doubtful. The probabilities are that the cotton loan program will provide the main support to prices. * * * |
| October..... | July 20 | 9.30 | 10.04 | 8.54 | |
| December..... | July 20 | 9.16 | 9.43 | 8.43 | |
| Spot..... | July 20 | 10.26 | 10.48 | 9.34 | |
| (in bales 000's) | | | | | |
| Consumption, U. S..... | June | 557 | 637 | 578 | |
| Exports, week end..... | July 19 | 36.9 | 6.9 | 23.2 | |
| Total Exports, season Aug. 1 to..... | July 19 | 5,991.6 | 5,954.7 | 3,300.9 | |
| Government Crop Est..... | July 1 | 11,506 | ..... | 11,817(ac) | |
| Active Spindles (000's)..... | June | 21,943 | 22,217 | 21,771 | |
| WHEAT | | | | | |
| Price cents per bu. Chi. closing | | | | | Wheat. Estimates by the Department of Agriculture place European wheat supplies this year at 10% below normal and 20% under last year. Danubian crops will be barely sufficient for the requirements of producing countries. Countries under German domination alone face a shortage of 200,000,000 bushels this year. It is unlikely, however, that any considerable portion of domestic surplus will find its way to famine-threatened Europe. Latest estimates indicate that the total domestic crop will be 20% larger than indicated six months ago, although still below normal. |
| July..... | July 20 | 73⅞ | 73 | 63⅞ | |
| September..... | July 20 | 74⅞ | 73⅞ | 64½ | |
| Exports bu. (000's) since July 1 to..... | July 13 | 4,425 | 2,217 | 4,848 | |
| Exports bu. (000's) wk. end..... | July 13 | 2,425 | 2,217 | 1,771 | |
| Visible Supply bu. (000's) as of..... | July 13 | 112,964 | 95,242 | 110,726 | |
| Gov't Crop Est. bu. (000's)..... | July 1 | 728,644 | ..... | 754,971(ac) | |
| CORN | | | | | |
| Price cents per bu. Chi. closing | | | | | |
| July..... | July 20 | 62¾ | 60⅞ | 39⅞ | |
| September..... | July 20 | 59⅞ | 57⅞ | 41 | |
| Exports bu. (000's) since July 1 to..... | July 13 | 1,447 | 1,097 | 84 | |
| Visible Supply bu. (000's) as of..... | July 13 | 24,952 | 25,774 | 19,995 | |
| Gov't Crop Est. bu. (000's) (final)..... | July 1 | 2,415,998 | ..... | 2,619,137(ac) | |

Latest Previous
Date Wk. or Mo. Wk. or Mo. Year
Ago

PRESENT POSITION AND OUTLOOK

COPPER

| | | | | |
|--------------------------------|---------|---------|---------|---------|
| Price cents per lb. | | | | |
| Domestic..... | July 20 | 10.625 | 10.875 | 10.25 |
| Export f. a. s. N. Y..... | July 20 | 10.10 | 10.35 | ..... |
| Refined Prod., Domestic*..... | June | 86,077 | 86,029 | 61,719 |
| Refined Del., Domestic*..... | June | 65,155 | 76,485 | 63,862 |
| Refined Stocks, Domestic*..... | June | 199,586 | 178,664 | 335,012 |
| Copper Sales, Domestic*..... | June | 112,120 | 83,879 | 66,381 |

TIN

| | | | | |
|----------------------------------|---------|--------|--------|--------|
| Price cents per lb., N. Y..... | July 20 | 51.0 | 51 1/4 | 48 1/8 |
| Tin Plate, price \$ per box..... | July 20 | 5.00 | 5.00 | 5.00 |
| World Visible Supply† as of..... | June 30 | 31,869 | 28,873 | 30,039 |
| U. S. Deliveries†..... | June | 9,225 | 7,905 | 4,925 |
| U. S. Visible Supply† as of..... | June 30 | 5,300 | 3,677 | 4,388 |

LEAD

| | | | | |
|---------------------------------|---------|--------|--------|---------|
| Price cents per lb., N. Y..... | July 20 | 5.00 | 5.00 | 4.85 |
| U. S. Production*..... | June | 42,306 | 46,268 | 39,068 |
| U. S. Shipments*..... | June | 49,904 | 46,919 | 38,710 |
| Stocks (tons) U. S., as of..... | June 30 | 55,343 | 62,955 | 129,636 |

ZINC

| | | | | |
|-------------------------------------|---------|--------|--------|---------|
| Price cents per lb., St. Louis..... | July 20 | 6.25 | 6.25 | 4.50 |
| U. S. Production*..... | June | 49,155 | 52,979 | 39,450 |
| U. S. Shipments*..... | June | 53,518 | 59,177 | 37,284 |
| Stocks, U. S., as of*..... | June 30 | 70,673 | 75,036 | 135,241 |

SILK

| | | | | |
|---|---------|--------|----------|----------|
| Price \$ per lb. Japan xx crack..... | July 20 | 2.54 | 2.54 1/2 | 2.70 1/2 |
| Mill Dels. U. S. (bales)..... | June | 17,307 | 18,997 | 25,256 |
| Visible Stocks N. Y. (bales) as of..... | June 30 | 90,122 | 92,485 | 60,709 |

RAYON (Yarn)

| | | | | |
|-------------------------|---------|------|------|------|
| Price cents per lb..... | July 20 | 53 | 53 | 53 |
| Consumption (a)..... | June | 31.1 | 31.9 | 33.0 |
| Stocks as of (a)..... | June 30 | 13.2 | 12.5 | 33.3 |

WOOL

| | | | | |
|-------------------------------------|---------|------|------|------|
| Price cents per lb. tops, N. Y..... | July 20 | 96 | 97 | 88 |
| Consumption, period ending (a)..... | June 1 | 17.1 | 17.5 | 20.2 |

HIDES

| | | | | |
|---------------------------------------|---------|--------|--------|--------|
| Price cents per lb. No. 1 Packer..... | July 20 | 12 | 12 1/2 | 12 |
| Visible Stocks (000's) as of..... | June 1 | 12,515 | 12,526 | 13,077 |
| No. of Mos. Supply as of..... | June 1 | 7.6 | 7.2 | 7.0 |
| Boot and Shoe Production, Prs.*..... | May | 29,262 | 31,056 | 32,708 |

RUBBER

| | | | | |
|-----------------------------------|---------|---------|---------|---------|
| Price cents per lb..... | July 20 | 22.25 | 20.75 | 16.70 |
| Imports, U. S.†..... | June | 46,506 | 51,619 | 48,438 |
| Consumption, U. S.†..... | June | 53,889 | 51,431 | 34,363 |
| Stocks U. S. as of†..... | June 30 | 168,235 | 161,446 | 173,493 |
| Tire Production (000's)..... | May | 5,415 | 5,106 | 4,473 |
| Tire Shipments (000's)..... | May | 5,720 | 5,010 | 4,800 |
| Tire Inventory (000's) as of..... | May 31 | 10,576 | 10,881 | 9,540 |

COCOA

| | | | | |
|------------------------------------|---------|---------|---------|---------|
| Price cents per lb. Sept..... | July 19 | 4.39 | 4.61 | 4.10 |
| Arrivals (bags 000's)..... | June | 352.4 | 271.6 | 197.8 |
| Warehouse Stocks (bags 000's)..... | July 19 | 1,099.4 | 1,062.4 | 1,396.3 |

COFFEE

| | | | | |
|--|---------|-------------|-------------|--------|
| Price cents per lb. (c)..... | July 20 | 6 7/8-7 1/8 | 6 7/8-7 1/8 | 7 1/4 |
| Imports, 12 Mos. to (bags 000's)..... | July 1 | 14,026 | 12,762 | 13,878 |
| U. S. Visible Supply (bags 000's)..... | July 1 | 1,486 | 1,640 | 1,408 |

SUGAR

| | | | | |
|---------------------------------------|---------|---------|---------|---------|
| Price cents per lb. | | | | |
| Raw..... | July 20 | 2.65 | 2.70 | 2.88 |
| Refined (Immediate Shipment)..... | July 20 | 4.50 | 4.50 | 4.40 |
| U. S. Deliveries (000's)*..... | 6 Mos. | 3,022.8 | ..... | 2,899.2 |
| U. S. Stocks (000's)* as of (rr)..... | June 30 | 1,033.3 | 2,247.2 | 928.7 |

Copper. The price situation became quite confused last week when Kennecott Copper on two large Government orders was low bidder at 10 3/4 cents. As a consequence private buyers withdrew as large producers continued to quote 11 1/2 cents, although customs smelters and smaller producers were reported to have sold metal at 10 5/8 cents. The present price upset appears to have been the aftermath of the French surrender.

Tin. International Tin Committee has fixed export quotas for the twelve months beginning July 1, last, at 130% of basic. Reports are being circulated that the National Defense Commission is considering the erection of a large tin smelter. Greater quantities of tin are coming in from Bolivia.

Lead. Market has been featureless. July positions are fully covered, while August is about 30% accounted for. Prices are firm.

Zinc. Stocks of all grades of domestic zinc declined 4,365 tons in June; shipments were off 5,659 tons; and production declined 3,824 tons.

Silk. Conflicting reports of further efforts on the part of Japanese authorities to stabilize prices have had the effect of restricting trading and price changes have been confined to a narrow range.

Wool. All types of wool machinery in May operated at a rate higher than the preceding month, for the first time since the closing months of 1939. Activity, however, did not show the normal increase for that month.

Hides. South American hides are coming into the domestic market, priced substantially under the domestic product, but of inferior quality. South American exporters have lost the greater part of their foreign market as a result of the war and, as a consequence, have been forced to ship large quantities to the United States. Although the domestic hide picture continues statistically strong, the possibility of large South American surpluses has had a depressing effect upon prices.

Rubber. In order to facilitate Government purchases of crude rubber International Rubber Regulation Committee has raised third quarter export quotas to 85% of basic. The probabilities are that purchases by Rubber Reserve Corp. will be a determining influence on crude prices for some time to come.

Cocoa. With supplies from West Africa more readily available than previously thought likely, coupled with weakness in Bahia grades, prices in the domestic market have weakened.

Coffee. Europe normally accounts for 45% of annual coffee consumption. With this market now extremely doubtful plans are under way to avoid the piling up of large surpluses. Export quotas and a campaign to increase United States consumption are being considered.

Sugar. Outlook for raw prices for balance of the year is dubious. Supplies are considerably more than sufficient. Pressure continues to be exerted for a reduction of quotas. World prices have also been soft. Price outlook for refined sugar is confused, although trade withdrawals have held up.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (pl)—Preliminary. (rr)—Raw and refined. ★—Thousands.

Money and Banking

| | Date | Latest Week | Previous Week | Year Ago | COMMENT |
|---------------------------------------|---------|-------------|---------------|----------|--|
| INTEREST RATES | | | | | |
| Time Money (60-90 days)..... | July 20 | 1 1/4% | 1 1/4% | 1 1/4% | During the past fortnight both gold stock holdings and excess reserves reached a new peak. As a matter of fact both items have continued to rise with almost monotonous regularity. It is possible in fact likely, however, that there will be at least a temporary pause in the rate of gain in excess reserves. This week the Treasury will receive payment for some \$600,000,000 to \$700,000,000 new 2 1/4% bonds. Payments for the most part will probably be made in cash, with the result that Treasury deposits with the twelve Federal Reserve banks will be increased and deposits with member banks drawn down by similar amounts. |
| Prime Commercial Paper..... | July 20 | 1/2-3/4% | 1/2-3/4% | 1/2% | |
| Call Money..... | July 20 | 1% | 1% | 1% | |
| Re-discount Rate, N. Y..... | July 20 | 1% | 1% | 1% | |
| CREDIT (millions of \$) | | | | | |
| Bank Clearings (outside N. Y.)..... | July 6 | 2,531 | 2,620 | 2,206 | The latest report of New York City Member Banks disclosed a drop of \$3,000,000 in loans to commerce, industry and agriculture. For the first time in many weeks, however, loans to brokers and security dealers showed a plus sign of \$22,000,000. It is hardly likely that this increase represents any revival of public interest in the stock market, with daily volume at the lowest levels in twenty years. The upturn doubtless reflects borrowings in connection with the new Treasury bond issue and recent corporate bond flotations. |
| Cumulative year's total to..... | July 6 | 70,623 | ..... | 64,073 | |
| Bank Clearings, N. Y..... | July 6 | 3,147 | 3,224 | 3,362 | |
| Cumulative year's total to..... | July 6 | 89,084 | ..... | 84,850 | |
| F. R. Member Banks | | | | | |
| Loans and Investments..... | July 10 | 23,683 | 23,586 | 22,022 | * * * |
| Commercial, Agr., Ind. Loans..... | July 10 | 4,447 | 4,438 | 3,887 | |
| Brokers Loans..... | July 10 | 377 | 380 | 644 | |
| Invest. in U. S. Govts..... | July 10 | 9,226 | 9,202 | 8,493 | |
| Invest. in Gov't Gtd. Securities..... | July 10 | 2,416 | 2,405 | 2,153 | The investment accounts of New York City Member Banks showed a decline of \$8,000,000 in holdings of Treasury discount bills, a drop of \$5,000,000 in Treasury bonds holdings, while guaranteed obligations were down \$1,000,000. Holdings of Treasury notes rose \$11,000,000, and other securities were up \$2,000,000. The latest week showed a decline of \$66,000,000 in demand deposits, while time deposits were up \$1,000,000. |
| Other Securities..... | July 10 | 3,580 | 3,517 | 3,246 | |
| Demand Deposits..... | July 10 | 20,824 | 20,510 | 17,368 | |
| Time Deposits..... | July 10 | 5,321 | 5,331 | 5,274 | |
| New York City Member Banks | | | | | |
| Total Loans and Invest..... | July 17 | 9,400 | 9,379 | 8,092 | * * * |
| Comm'l, Ind. and Agr. Loans..... | July 17 | 1,711 | 1,714 | 1,405 | |
| Brokers Loans..... | July 17 | 287 | 265 | 472 | |
| Invest. U. S. Govts..... | July 17 | 3,975 | 3,977 | 3,154 | |
| Invest. in Gov't Gtd. Securities..... | July 17 | 1,286 | 1,287 | 1,100 | * * * |
| Other Securities..... | July 17 | 1,353 | 1,351 | 1,106 | |
| Demand Deposits..... | July 17 | 9,710 | 9,776 | 7,665 | |
| Time Deposits..... | July 17 | 68 | 681 | 632 | |
| Federal Reserve Banks | | | | | |
| Member Bank Reserve Balance..... | July 17 | 13,863 | 13,764 | 10,412 | * * * |
| Money in Circulation..... | July 17 | 7,872 | 7,884 | 7,022 | |
| Gold Stock..... | July 17 | 20,256 | 20,166 | 16,191 | |
| Treasury Currency..... | July 17 | 3,016 | 3,015 | 2,890 | |
| Treasury Cash..... | July 17 | 2,199 | 2,191 | 2,530 | * * * |
| Excess Reserves..... | July 17 | 6,880 | 6,830 | 4,490 | |
| NEW FINANCING (millions of \$) | | | | | |
| Corporate..... | June | 111.6 | 111.9 | 283.0 | * * * |
| New Capital..... | June | 9.3 | 29.2 | 31.2 | |
| Refunding..... | June | 102.3 | 82.7 | 25.8 | |

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

| No. of Issues (1925 Close—100) | 1940 Indexes | | | | (Nov. 14, 1936, Close—100) | 1940 Indexes | | | |
|-----------------------------------|--------------|-------|---------|---------|----------------------------------|--------------|-------|---------|---------|
| | High | Low | July 13 | July 20 | | High | Low | July 13 | July 20 |
| 309 COMBINED AVERAGE | 67.1 | 45.3 | 48.8 | 49.0 | 100 HIGH PRICED STOCKS | 68.30 | 49.40 | 52.45 | 52.77 |
| | | | | | 100 LOW PRICED STOCKS | 58.80 | 36.43 | 40.94 | 41.62 |
| 5 Agricultural Implements | 103.6 | 63.6 | 68.9 | 69.2 | 2 Mail Order | 94.9 | 63.8 | 72.3 | 73.4 |
| 6 Amusements | 28.8 | 15.8 | 16.4 | 16.2 | 4 Meat Packing | 70.0 | 42.1 | 46.0 | 45.4 |
| 15 Automobile Accessories | 96.2 | 65.5 | 70.1 | 71.2 | 13 Metals, non-Ferrous | 158.4 | 106.7 | 106.7L | 109.6 |
| 12 Automobiles | 12.0 | 7.7 | 8.3 | 8.3 | 3 Paper | 19.4 | 11.8 | 12.3 | 12.2 |
| 12 Aviation (1927 Cl.—100) | 235.5 | 158.8 | 161.5 | 158.8x | 22 Petroleum | 86.7 | 63.1 | 65.2 | 66.1 |
| 3 Baking (1926 Cl.—100) | 12.3 | 7.9 | 9.5 | 9.4 | 18 Public Utilities | 57.6 | 35.1 | 44.8 | 44.9 |
| 3 Business Machines | 117.3 | 75.1 | 79.7 | 78.7 | 3 Radio (1927 Cl.—100) | 12.9 | 7.9 | 8.6 | 8.8 |
| 9 Chemicals | 174.1 | 120.5 | 128.5 | 128.9 | 9 Railroad Equipment | 53.2 | 34.3 | 37.2 | 37.1 |
| 20 Construction | 33.6 | 19.4 | 21.4 | 21.5 | 22 Railroads | 13.6 | 7.3 | 8.5 | 8.3 |
| 5 Containers | 351.1 | 168.6 | 185.9 | 191.5 | 2 Realty | 2.7 | 1.2 | 1.6 | 1.5 |
| 9 Copper & Brass | 103.6 | 65.7 | 65.7x | 66.2 | 2 Shipbuilding | 118.1 | 73.5 | 92.9 | 91.4 |
| 2 Dairy Products | 33.6 | 24.7 | 26.0 | 26.9 | 11 Steel & Iron | 85.9 | 59.6 | 65.7 | 65.2 |
| 7 Department Stores | 20.9 | 13.8 | 15.5 | 15.6 | 2 Sugar | 32.7 | 18.3 | 19.4 | 18.8 |
| 6 Drugs & Toilet Articles | 58.4 | 36.1 | 37.7 | 38.1 | 2 Sulphur | 180.2 | 135.4 | 152.0 | 149.5 |
| 2 Finance Companies | 272.1 | 164.3 | 168.5 | 170.6 | 3 Telephone & Telegraph | 47.5 | 30.5 | 34.9 | 34.1 |
| 7 Food Brands | 117.8 | 78.4 | 88.7 | 87.8 | 4 Textiles | 57.3 | 36.2 | 44.1 | 45.4 |
| 3 Food Stores | 56.1 | 37.7 | 43.6 | 43.4 | 4 Tires & Rubber | 15.3 | 8.4 | 9.2 | 9.3 |
| 4 Furniture & Floor Covering | 56.9 | 32.6 | 35.9 | 37.9 | 4 Tobacco | 90.2 | 72.8 | 76.8 | 77.0 |
| 3 Gold Mining | 968.7 | 551.4 | 576.0 | 587.0 | 4 Traction | 43.5 | 32.7 | 39.2 | 39.0 |
| 6 Investment Trusts | 24.5 | 15.5 | 16.9 | 16.8 | 4 Variety Stores | 248.3 | 177.2 | 195.5 | 196.7 |
| 3 Liquor (1932 Cl.—100) | 164.2 | 109.1 | 121.6 | 123.0 | 20 Unclassified (1939 close—100) | 103.9 | 67.3 | 70.7 | 71.4 |
| 9 Machinery | 116.2 | 81.0 | 91.3 | 92.1 | | | | | |

L—New Low since 1937. x—New LOW this year.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to three listed securities.
3. No inquiry will be answered which does not enclose stamped, self-addressed envelope.
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Alpha Portland Cement

With the Government planning the construction of shipyards, hangars, plants, gun emplacements and underground storage tanks, to what extent should this company participate? Are profit restrictions likely? In recent months, I bought 200 shares at 15. Am I right in holding this stock for the long pull? Would you advise averaging at present lower level?—A. J. M., Canton, Ohio.

Alpha Portland Cement is one of the important domestic producers, operating mostly in the highly industrialized sections east of the Mississippi. Keen competition in this section has been lessened since the war abroad has excluded foreign imports and this has reduced pressure on the price structure. Although no sharp increases in prices are looked for in the immediate future, any development in that direction would, of course, be to the benefit of such a company as this one. The concern reported profits of \$1.04 per share for the twelve months ending in June of 1940 which compared with the \$1.09 cents per share reported for the preceding twelve months period. Business in the earlier months of this year was somewhat below the corresponding period of the year before, but some improvement in sales over coming months is looked for. Government spending for public works projects is lower than a year ago but such decreases

are likely to be offset before long by increased spending for national defense purposes. However, profit margins on such business will be lower. On the other hand, industrial construction should make for earnings increases over coming months.

In spite of losses during the depression years, financial position of the company continues to be quite sound and the balance sheet as of March 31, 1940, disclosed cash alone approximately nine times greater than total current liabilities. The strong financial position of the company indicates maintenance of current dividend rates. Capitalization is simple, consisting only of 639,500 shares of common stock outstanding. These shares have a moderate degree of speculative appeal over the longer term since earnings should reflect industrial construction which is anticipated for the coming months and we feel, therefore, that retention of holdings might well be considered on that basis. For the present, however, we would not advise additional purchases for averaging.

National Tea Co.

Can National Tea maintain the sales progress recorded in the first half in the face of war uncertainties and higher taxes? Last year, I purchased 300 shares at 5. Could have sold for 8½ but missed the boat and now shares are around what I paid. Shall I get out or hold on to them? Would you please furnish me with an up-to-date opinion on this company? Have not seen anything in the Magazine about it in the last few months.—C. D. M., Salt Lake City, Utah.

National Tea Company operates a chain of about 1,059 retail food stores, more than 400 of which are combination markets which include meat departments. About two-thirds of the units are located in the Chicago area, with the balance being mainly in Minnesota, Wisconsin and Iowa. In addition, between forty and fifty motor routes are also operated. Up until the end of 1937, earnings of the company had been in an irregular decline but operating economies, coupled with a better sales volume, appear to have reversed this trend. In 1939, the company reported a deficit of 72 cents per share on the common stock which compared with a deficit of \$1.71 per share the preceding year, and this improvement has been carried over so far in the current year when a profit of 24 cents per share was reported for the first 24 weeks of 1940 as compared with a deficit of 63 cents per share in the similar period last year. Recently sales were reported to be 12.6% ahead of this time a year ago and this gain should continue over the intermediate future which, with firmer prices, should be reflected in further earnings improvement. Finances are believed to be adequate, although working capital position is rather

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Prepaid and Instruct Us to Answer Collect.**

small, the balance sheet as of December 31, 1939, disclosing current assets of \$5,926,401 as against current liabilities of \$2,658,092. There is no funded debt outstanding although there are real-estate mortgage notes of \$606,163. These are followed in the capital structure by 143,107 shares of 5½% cumulative preferred (\$10 par) and 622,650 shares of common stock. Moderate arrears on the preferred preclude common stock dividends for the time being. Although higher taxes may narrow profit margins somewhat, the outlook is for continuance of moderate gains in sales and earnings and under these circumstances we feel that retention of the issue as a price speculation would be the advisable course to follow.

Lehn & Fink

Have been holding 125 Lehn & Fink shares at 12½—principally for income. Although the stock has held fairly steady in price, dropping only slightly while the general market sagged badly, I am concerned today over the outlook for this company. Are current earnings being maintained at the 1939 rate? What sales progress has been recorded for Lysol, Pebeco, Hind's Almond Cream and the Dorothy Gray line? Are other products being contemplated? Please appraise the shares and advise what action to take.—N. W. C., Detroit, Mich.

Earnings of Lehn & Fink Products Corp. for the first quarter of 1940 were somewhat below those of the year before, being equal to 50 cents per share this year as against 58 cents per share last year. Lysol Disinfectant for institutional and personal use is the concern's most important item, and sales of this product should continue rather stable. Sales of such of the company's other products as Dorothy Gray cosmetics, Hind's Honey & Almond Cream and Pebeco Tooth Paste will doubtless be stimulated over coming months by higher levels of consumer purchasing power, but gains in profit margins on these items will likely be retarded by keen competition and high promotional expenses. Nevertheless, more satisfactory earnings comparisons are expected to be witnessed over the intermediate term. No new products are being contemplated. Finances continue to be sound, the latest balance sheet, that for December 31, 1939, disclosing cash alone somewhat in excess of total liabilities. Capitalization is

simple, the common stock outstanding in the amount of 400,000 shares having the only claim on assets and earnings. Dividends have been fairly liberal in line with earnings and total distributions for this year will probably equal the \$1.37½ per share paid in 1939. With the outlook indicating maintenance of earnings at about last year's levels, the shares are not outstandingly attractive for their appreciation possibilities but do return a reasonable yield at present levels. Primarily for income, we recommend retention.

Lehman Corp.

I have heard that Lehman Corp. may repurchase more stock for retirement. At present I hold 100 shares at 36. What do you advise me to do? Should I sell or wait for a possible improvement in the underlying securities? Do you think drastic changes in holdings may be made? What effects, if any, would proposed investment trust legislation have on Lehman Corp.?—Mrs. E. C., Alton, Illinois.

Net investment income of Lehman Corp. for the year ended June 30, 1940, was equal to \$1.02 per share as compared with 71 cents per share in the preceding twelve months period. In line with generally better business conditions which are expected, income should be at somewhat better levels over coming months. As of June 30 of this year, asset value of the stock was \$27.46 per share. Lehman Corp. is one of the better investment trusts and has a portfolio of securities which should benefit from good business conditions and any improvement in the market as a whole. The portfolio of the company is largely invested in stocks, 73.71% being committed in issues listed on the New York Stock Exchange and the New York Curb Exchange. United States Government securities were equal to 8.48% of the portfolio and 9.5% was in cash. Most of the balance was in over-the-counter securities. Quotations for the issue should reflect swings in the market generally. Regulatory legislation of investment trusts is unlikely this year. Current dividend rates will doubtless be continued and considering the past good record of the company and the composition of its portfolio, we feel that higher prices for the stock should be seen over the intermediate term and retention is therefore warranted.

International Paper & Power

On the strength of your article in the December 2, 1939, issue, I purchased 200 shares of International Paper common. I sold out at 19¾, close to this year's high making a nice profit. But I bought in again at 15½ when the market gave 'way to war news and now the stock is a few points below this level. Is this company's inventory position sound? Are sources of pulp supplies assured? What should I do now—hold or sell? Would appreciate your recommendation.—P. L., Laredo, Texas.

International Paper & Power Corp., a highly integrated company, is the world's largest producer of paper. Newsprint has for some time past been an important product of the company but Kraft paper and board has become of increasing importance in the last two years, sales of this product in both 1938 and 1939 being greater than newsprint. In addition, the company produces practically all kinds of paper and pulp. Substantial timberlands are owned in Canada and in the Southern section of the United States, assuring ample supplies of pulp. Sales are largely to the consumer industries and vary in line with general business trends. Rising demand and prices due to a possible shortage as a result of the war abroad have reacted quite favorably on this company and a profit of 99 cents per share was reported on the common stock for the first quarter of 1940 as compared with a deficit of 63 cents a share in the corresponding period the year before. Further improvement in both sales and earnings are expected over the months ahead. Refunding operations being considered by the company will simplify and consolidate the capital structure and result in lower interest requirements. Finances continue to be quite strong, the balance sheet as of the 1939 year end disclosing current assets about three and one-half times greater than current liabilities. Dividends on the common stock are precluded for the time being by arrears on the preferred, which on July 1st of this year totalled \$12.50 per share. The junior issue has a good degree of speculative appeal at current levels in view of the probability of further earnings increases over coming months and we feel that higher prices are likely to be seen when the upward course of the market has again been definitely resumed. We recommend retention.

(Please turn to page 492)

Can the "Fifth Column" Sit In at Directors' Meetings?

(Continued from page 461)

only to Eastman Kodak in the manufacture of films and photographic supplies, through its Agfa Ansco division. Latest reports of its holdings of American stocks show in the portfolio 920,548 shares of Standard Oil of New Jersey, 55,330 Sterling Products, 10,000 Eastman Kodak, 23,799 Mission Corp., 10,000 Standard Oil of California, 5,900 Standard of Indiana, and 6,500 du Pont.

The chemical industry in this country is in some senses a child of the European chemical industry, so that it is not surprising to find that some vestiges of relationship remain. When American firms have acquired rights to a foreign process they have frequently paid in stock which may or may not have passed out of the foreign hands by now. One example of a block of stock still owned abroad is the 500,000 shares of Allied Chemical & Dye, equal to 22.6% of all the stock outstanding, which is the property of Solvay American Corp. This company also holds 75,386 shares of Libbey-Owens-Ford Glass and 20,305 shares of Union Carbide. Solvay American is wholly owned by Gesellschaft fur Beteiligungen und Unternehmungen der Chemischen Industrie, which in turn is a wholly owned subsidiary of Solvay & Co., of Belgian and mixed European origin.

A few instances could be cited of comparatively recent ventures of European capital directly in American business, such as Shell Union Oil and American Viscose Co., but these are fairly obvious. One of the more striking examples of the possibilities is the case of Douglas Aircraft. This company is one of the mainstays of our aircraft production schedule, and thoroughly American. But last year Douglas sold a block of 29,320 shares of its stock in Holland, finding a better market for it there than here. If the stock should fall into German hands and if it were large enough (which it isn't) to take a part in shaping the company's policies, the United States would be in the peculiar situation of doing vital business with the enemy

NOTICE OF



REDEMPTION

THE TEXAS CORPORATION

(A DELAWARE CORPORATION)

3½% DEBENTURES, DUE JUNE 15, 1951

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of Article Third of the Indenture dated as of June 15, 1936, entered into by and between The Texas Corporation (a Delaware corporation) and Central Hanover Bank and Trust Company, as Trustee, The Texas Corporation has elected to redeem and pay, and will redeem and pay, on August 12, 1940, all its 3½% Debentures, due June 15, 1951, now outstanding under said Indenture, at the following redemption price, to wit: 103% of the principal amount thereof, together with interest on the principal accrued and unpaid to August 12, 1940.

Said Debentures are required to be presented and surrendered on the redemption date for redemption and payment as aforesaid, at the principal office of Central Hanover Bank and Trust Company, in the Borough of Manhattan, The City of New York, at 70 Broadway, New York, New York, or at the office of Continental Illinois National Bank and Trust Company of Chicago, at 231 South La Salle Street, Chicago, Illinois.

Coupon Debentures presented and surrendered for redemption and payment must have attached all appurtenant coupons maturing after August 12, 1940. Registered Debentures without coupons, and coupon Debentures registered as to principal, presented and surrendered for redemption and payment must be accompanied by instruments of transfer satisfactory to The Texas Corporation, executed in blank.

From and after August 12, 1940, interest on said Debentures will cease. Coupons, appertaining to said Debentures, which mature subsequent to August 12, 1940, will be of no force or effect.

THE TEXAS CORPORATION

Dated: July 12, 1940.

By L. H. LINDEMAN, Treasurer.

Additional Notice

All of The Texas Corporation's 3½% Debentures, due June 15, 1951, have been called for redemption on August 12, 1940, as appears from the foregoing notice.

At any time prior to August 12, 1940, holders of said Debentures may at their option present and surrender said Debentures, in the manner and at either of the offices specified in said notice, and receive the full redemption price, including interest on the principal accrued and unpaid to August 12, 1940.

THE TEXAS CORPORATION

Dated: July 12, 1940.

By L. H. LINDEMAN, Treasurer.

—the situation that ruined several European democracies.

The subject is not one for a scare. Any undesirable effects of foreign ownership can easily be brought under control. Nevertheless, it cannot be entirely ignored in this treacherous world.

Aircraft Companies Face New Problems—Airline Traffic Grows

(Continued from page 471)

able factor if excess profits taxes are based on the latter.

There is also the possibility that the industry, already facing an equipment shortage due to rapid

growth in traffic, will encounter increasing difficulty in obtaining more and larger planes; this would be the case if our defense needs come to be deemed so pressing as to require the diversion of all plane making capacity to military output.

None of these factors, however, are to be considered as of permanent character since they will arise, if at all, only as a result of the national defense emergency and will pass when that emergency passes. Much more significant from a longer term viewpoint is the rapid growth the industry is experiencing, a growth based entirely on natural economic factors rather than abnormal influences of armament and war.

In the first half of this year air traffic was the heaviest on record, rising about 60% over the like period of 1939; in June alone, domestic air-

lines flew more than 100,000,000 passenger miles, a new monthly record. By all past standards, moreover, operations were eminently profitable and it is estimated that the industry's aggregate earnings for the period approximately quadrupled those of a year earlier. Probably not more than two or three lines were in the red as against six last year.

Just as the second half of the year will inevitably see a further marked expansion in output of the plane manufacturers, so continuing gains may be counted upon for the transport companies. Apart from the effects of excess profits taxes, which cannot be fully appraised until the basis of their calculation is known, profits of the transports should also continue to rise at a pace at least equal to that established in the first half and perhaps even better—this because, with the industry now pulling past the break-even point, considerable operating leverage should come into play. Introduction of new and larger flight equipment by most lines early next year may prove a temporary brake on earnings at that time, but can scarcely detract from the encouraging longer range prospects for commercial aviation.

A Balanced Portfolio of Six Stocks

(Continued from page 459)

Abbott Laboratories

Both sales and earnings of Abbott Laboratories in 1939 set a new high record for the company, thus duplicating the performance of 1938. It is particularly significant to recall that in 1938 many companies considered themselves fortunate to show even a modest profit.

The company, organized at the beginning of the present century, is a prominent manufacturer of pharmaceutical, biological, chemical and vitamin products. Altogether the company manufactures about 1,200 products, sales of which are promoted not through the general public but through the medium of doctors, and products ultimately find their way into the hands of the consumer through prescription and professional recommendation. The company's history has been featured

by steady growth and an unusually well sustained earning power, both under favorable and adverse conditions. Dividends were maintained throughout the last depression, while profits suffered but a relatively modest decline between 1929 and 1932, and thereafter not only were earnings prompt to recover lost ground but established successive new high records in each year from 1934 to 1939, inclusive.

Total sales last year amounted to \$11,485,415, comparing with \$9,726,952 in 1938. Net income in 1939 totaled \$2,048,094, equal after preferred dividends to \$2.61 a share on the 752,468 shares of common stock outstanding. The showing last year compared with a net profit of \$1,648,326, or \$2.43 a share on 640,090 shares in 1938.

The company has no funded debt outstanding and in addition to the common shares there are 14,157 shares of 4½% preferred stock outstanding. At the end of last year current assets were in excess of \$12,000,000 including cash and marketable securities of nearly \$6,000,000, while current liabilities amounted to only \$1,547,320.

Active research has steadily broadened the company's list of products and sales opportunities, and these products have undoubtedly made possible the consistent upturn in sales and earnings in recent years. Improvement has been maintained to date in the current year, with net in the first quarter totaling \$745,491, equal to 96 cents a share, as compared with \$617,835 or 88 cents a share in the same period of 1939. Export business is an important item in the company's operations but Abbott Laboratories has no branches or agents on the European continent.

Last year Abbott Laboratories paid dividends aggregating \$2.05 a share on its common stock, in addition to 5% paid in stock. Payments thus far in the current year have been at the rate of 40 cents quarterly, plus an extra of 10 cents.

It is hardly likely that the company's rate of growth will be retarded by events likely to develop over the months ahead and, all in all, the shares appear to offer a dependable income-producing vehicle of a type which promises gradual, but important, enhancement in value. Recent quotations around 58

compare with a current high of 70¼ and a low of 50.

Ex-Cell-O Corp.

High-lights in Ex-Cell-O Corp.'s background include sales and earnings last year at the highest level in the company's history, the largest backlog of unfilled orders on record at the start of 1940, first quarter earnings up more than 280%, and a recent increase of 50% in the latest quarterly dividend.

Ex-Cell-O Corp. is engaged in the manufacture of a widely diversified line of machine tools and kindred products. Included in the company's output are such machine tools as precision boring machines, hydraulic power units, multiple drill heads, precision thread grinders, cylinder boring machines and various aircraft engine parts, diesel fuel injection pumps and railroad pins and bushings. One of the company's most recent developments is a machine known as "Pure-Pak," which forms, coats, sterilizes, fills, seals and dates paper containers for milk and other dairy products. The use of paper milk containers has been successfully developed in competition with the familiar milk bottles in an increasing number of large distribution areas, a trend which Ex-Cell-O Corp. should be able to capitalize profitably.

Formerly the bulk of demand for the company's products originated in the automobile industry. In recent years, however, the development of new products adaptable for a wider range of industrial units has materially reduced the relative importance of the automobile industry as a factor in evaluating the company's prospects at any particular time.

Last year automobile and automobile accessory manufacturers accounted for 19% of Ex-Cell-O's total sales. On the other hand, sales to aircraft engine manufacturers, which accounted for only 6% of sales in 1935, contributed 19% of 1939 sales. The ascendancy of the aircraft industry as an outlet for the company's products is particularly significant at a time when the industry is moving under the impetus of large orders both from Great Britain and our own government. Moreover, it appears virtually certain that the national defense program

will impart considerable impetus to demand for machine tools of all kind.

Last year, with record sales of \$6,608,151, the company reported net available for the common stock amounting to \$872,382, or the equivalent of \$2.21 a share on 397,306 shares of stock comprising the entire capitalization. The latter was an increase of virtually 100% over earnings equal to \$1.11 a share in 1938. Net in the first quarter of 1940 totaled \$577,495, or the equivalent of \$1.45 a share, contrasting sharply with net of \$149,771, or 38 cents a share, in the March quarter of 1939. On the basis of the most recent showing, it would not be surprising if the company this year was able to show somewhere between \$4 and \$5 a share for its capital stock. Dividends for all of 1939 amounted to \$1 a share and the most recent quarterly payment was at the rate of 60 cents a share, whereas the previous payment amounted to 40 cents. Dividends of at least \$2 a share appear to be a reasonable expectation.

The shares appear to be one of the most promising mediums for participation in the important machine tool industry, as well as indirectly in the automobile and aircraft industries. Even granting the possibility that enactment of excess profits tax legislation may restrict stockholders' share of earnings, the company's well founded prospects, coupled with the fact that prevailing quotations do not excessively capitalize prospective earnings, would appear to justify a place for the issue in a balanced portfolio. Recent quotations around 30 compare with a high of 34¾ and a low of 20½.

E. I. du Pont de Nemours Co.

The case for inclusion of the shares of E. I. du Pont de Nemours Co. in a balanced portfolio rests solidly on the fact that probably no other common stock issue affords the investor such a substantial stake, both directly and indirectly, in what amounts to virtually a cross-section of American industry.

Du Pont is the largest manufacturer of finished and semi-finished chemical products in the country. The large sums for research which have been spent by the company have greatly broadened its scope,

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New Issue
July 18, 1940

\$50,000,000

The Cleveland Electric Illuminating Company

First Mortgage Bonds, 3% Series due 1970

Price 105½%

plus accrued interest from July 1, 1940, to the date of delivery

Copies of the offering prospectus may be obtained from only such of the undersigned as may legally offer these securities under applicable securities laws. A complete list of the principal underwriters, including the undersigned, and the respective amounts which they severally have underwritten, subject to the conditions specified in the underwriting agreement, are set forth in the offering prospectus.

| | | |
|--------------------------------------|---|---|
| Dillon, Read & Co. | | |
| The First Boston Corporation | Blyth & Co., Inc. | Harriman Ripley & Co. <small>Incorporated</small> |
| Mellon Securities Corporation | Union Securities Corporation | Smith, Barney & Co. |
| Spencer Trask & Co. | Bonbright & Company <small>Incorporated</small> | Goldman, Sachs & Co. |
| W. C. Langley & Co. | Shields & Company | Halsey, Stuart & Co. Inc. |
| Lazard Freres & Co. | Coffin & Burr <small>Incorporated</small> | Stone & Webster and Blodget <small>Incorporated</small> |
| | Hayden, Miller and Company | |

with the result that its products are consumed in substantial quantities by such widely diversified industries as textile, chemical, automobile, paper, construction, petroleum, mining, iron and steel and agricultural. Moreover, a considerable portion of the company's products is sold directly to the ultimate consumer, a condition which tends to impart a greater measure of stability to earning power. As the dominant factor in its field, the company may be credited with all the advantages which have come to be identified with the chemical industry—freedom from raw material problems, a low ratio of labor costs to the value of finished products, and an exceptionally strong factor of potential

growth. Du Pont also has a sizable investment in the common stock of General Motors, which is roughly equivalent to one share of General Motors for each common share of du Pont. As a result, the stockholder in du Pont has an indirect stake in the many activities of General Motors, including automobiles, aircraft engines, aircraft manufacture, aircraft equipment, diesel engines, electrical refrigerators, etc.

Notwithstanding steadily declining prices for most of the company's products in recent years, lower profit margins have been more than offset by greatly increased sales and operating profits have exceeded the 1929 level in every year since 1934. Last year the operating profit was

about double that for 1929. Net income last year totaled \$93,218,664, equal after debenture and preferred dividends to \$7.70 a share on 11,050,756 shares of common stock. This compares with net of \$41,847,363 or \$3.79 a share earned in 1938. Of total sales last year about 5% was contributed by foreign business, and on a tonnage basis, aggregate sales are estimated to have increased 32%. Prices of the company's products averaged 3% lower in 1939 than in 1938.

In the first six months of the current year, the company reported profits equivalent to \$4.06 a share, of which \$2.04 was earned in the first quarter and \$2.02 in the second quarter. Actually, however, in the second quarter the company set up sufficient reserves to take care of increased taxes in both the first and second quarters. These reserves appear to have been equal to approximately 12 cents a share in each quarter. Despite the added burden of heavier taxes, it appears to be a safe assumption that sales and earnings this year will again establish a new high record.

Last year dividends paid to common stockholders totaled \$7 a share and thus far in the current year two quarterly payments of \$1.75 each have been made. Recent quotations around 158 compare with high of 189½ and a low of 146½.

Changing Profit Perspective

(Continued from page 456)

significance today as investors begin to think of shaping security portfolios with reference to excess profits taxes. It will be easy to look askance at a given industrial company because it will be hit relatively hard by these added taxes *this year*, while a much less dynamic company in some other economic field will be little affected. Over-emphasis on such tax variations as an investment guide may be unwise. Excess profits taxes are only part of the problem. The total corporate tax burden is going to be much bigger. There is something to be said in behalf of companies which over past years have shown an ability to adjust themselves profitably to new conditions and

new problems, including higher taxes. They will not become second grade enterprises because an excess profits tax is going to be passed; and no second grade company is going to become first grade merely because this year the new tax will add little or nothing to its burden.

In the broader non-manufacturing classifications, as shown by inclusive Treasury tax records, there are some wide variations also of long run investment significance. Thus, in recent best years, earning power in such fields as merchandise trade and mining compared favorably with the average of the '20's. By the same basis of longer term comparison, a relatively poor recovery in earnings is shown by railroads, utilities, finance and services, the latter including professional services, amusements, hotels, restaurants, etc.

As a matter of fact, no year since 1929 has given American business another chance to show what it could really earn on sustained high volume *throughout the year*, much less on high volume, quarter after quarter, for several years. In 1936 the first half was only medium in volume, the second half a bit under any reasonable estimate of statistical normal. In 1937 there were three good quarters, but with a fourth quarter smash that drastically reduced earnings. For the four years 1926-1929 the entire range of the Reserve Board production index was 105-125. When we can put together as much as two years of relatively stable production at a high level we will get a real test of the earnings abilities of business.

Meanwhile, both prosperity and profitless prosperity remain around the corner, business earnings in the aggregate are fairly good—considering the circumstances—and earnings of the minority of highly efficient or fortunately placed companies are excellent. As is not surprising, the largest percentage gains from the profits of the first half of last year are being shown in the capital goods industries, in such prince-and-pauper fields as railroads and, in lesser degree, in consumers' durable goods enterprises. The biggest percentage gains for the year as a whole will center mainly in these fields.

A list of individual companies, likely to be among the largest gainers in this year's profits, is presented in a table accompanying this article.

Answers to Inquiries

(Continued from page 488)

Best & Company

To what extent might Best & Co. future earnings be affected by the new taxes? How do sales from branch stores in summer resorts compare with last year at this time? How are the New York store's sales being stimulated by the presence of World's Fair visitors? I purchased 100 shares at 50¼ in 1939. Do you think the shares might recover to this level soon? I would like to see you publish an appraisal of this stock, reflecting recent war and defense program effects.
—D. D. A., Utica, New York.

Best & Co. operates a large retail store in New York City as well as ten suburban and resort branches in various parts of the country, and it was recently announced that another branch store would be opened in the near future. The organization specializes in quality merchandise and centralized management is able to exert a good degree of control over costs. While there is no definite information as to the sales at branch stores so far in the current year, it is likely that volume at these units is at least moderately ahead of this time a year ago. The merchandising industry as a whole should benefit from higher levels of consumer purchasing power and Best & Co., whose trade position is quite strong, should be in a good position to share in such business. In the fiscal year ending in January of 1940 earnings were equal to \$3.42 per share on the common stock, moderately ahead of the \$3.35 per share reported for the preceding fiscal term. Results in the first half of 1940 should be at least moderately better than the \$1.18 per share reported for the corresponding period of the year before. Finances have been maintained in a consistently sound position, the balance sheet as of January 31, 1940, disclosing current assets of \$5,287,684 as against current liabilities of \$913,579. The current \$1.60 dividend rate, supplemented from time to time by extras, would appear to be quite secure. Sales of this company should benefit from a combination of higher levels of consumer purchasing power, price stability and cost control and may equal the record volume reported for the 1938 fiscal term but per share earnings may not equal those of that year since higher


costs as well as higher taxes, the effects of which cannot as yet be estimated, may tend to narrow profit margins to a certain extent. The World's Fair is likely to stimulate sales of the New York store only to a small degree. However, the issue is one of the better ones in its group and earnings over coming months will doubtless be somewhat ahead of those this time a year ago. The stock has moderate appreciation possibilities at current levels and returns a reasonable yield. Retention is recommended.

Crown Cork & Seal


If, as reported, Crown Cork & Seal is likely to show net earnings at best levels since 1937, what is holding back the common stock? Is it the general market uncertainty alone, or the prospect of interrupted cork shipments from Spain? It strikes me that summer business in bottle-caps alone should have lifted the shares close to the year's high of 38 3/4. Please advise me on 80 shares purchased at 40 in 1939.—Dr. E. D. H., Brooklyn, N. Y.

Earnings of Crown Cork & Seal in 1939 were slightly more than double those of the preceding year and results thus far in the current year have continued this improvement, earnings for the first quarter of 1940 being equal to 53 cents per share on the common stock as against 13 cents per share in the corresponding period of the year before. It is expected that first half earnings will compare quite favorably with those of last year. The company is the leading manufacturer of crown closures for beverage bottles as well as metal milk bottle caps and closures for jars and containers. Sales of this company generally account for one half of total domestic volume. In 1936, the company diversified its activities by entering the can manufacturing field and while its subsidiary in that industry accounts for only a minor part of total cans manufactured in this country, losses are being reduced and it is possible that this unit can be placed on a profitable basis this year. It is not believed that the war will seriously interfere with its supplies of cork from Spain, Portugal and Northern Africa. Finances are quite sound, the balance sheet as of the 1939 year-end disclosing current assets of \$15,462,956 as against current liabilities of \$2,132,526, with cash alone nearly equal to total current liabilities. Capital-

If you could move your desk
to the brow of a hill
— and pursue your thinking
where all is still



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ization consists of funded debt of approximately \$14,500,000 followed by 225,000 shares of \$2.25 cumulative preferred and 517,609 shares of common stock. Dividends have not been paid for the past several years but some distribution on the common stock before the year-end would appear to be possible. Recent market action of the stock can doubtless be attributed to the general sluggishness of the list as a whole, but with indications pointing toward a continuation of increases in sales and earnings, the shares have a relatively good degree of speculative appeal at this time and we recommend retention.

Sutherland Paper

Are negotiations to consolidate Sutherland Paper with Continental Can still pending? I own 110 shares of the former, purchased at 28 1/4, and would like to have your analysis of market and earnings outlook. Have heard that Sutherland sales are running ahead of last year and that company can show large inventory profits on pulp purchased at low prices. If this is so, can you explain why the demand for these shares has been quiet in recent weeks? What are the possibilities of another dynamic appreciation such

as occurred when Scandinavian supplies were threatened?—O. R. T., Los Angeles, Calif.

Sutherland Paper reported earnings equal to \$1.52 per share for the first half of 1940 as compared with 90 cents per share in the corresponding period of 1939. Sales recently were running about 20% ahead of this time a year ago and consequently further improvement in earnings over coming months is looked for. The company is the largest manufacturer of paraffin cartons which are used extensively in the packaging of dairy products, ice-cream, and meat. Among its other products are included paper cans, counter displays, cups and dishes, etc. The company purchases its pulp requirements from outside sources but inventories were built up to about three times normal requirements at the low prices prevailing at the beginning of the war and supplies are adequate for operations into the early months of 1941. Consequently, inventory profits will be to the company's advantage. Because of close association to the food and such consumer goods industries,

tonnage sales are rather stable but some improvement is expected to be witnessed over coming months since higher levels of consumer purchasing power should make possible greater sales of those products packaged in this company's containers. The merger negotiations with Continental Can have been dropped and the proposed issue of new stock to present holders has been temporarily postponed due to market conditions. Finances continue to be quite sound and capitalization is simple, the 287,000 shares outstanding having the only claim on assets and earnings. While a repetition of the sharp advances which followed the Scandinavian invasion is not likely, any development which causes increases in paper prices doubtless would be reflected in quotations for the stock. The current \$1.20 annual dividend rate is believed to be safe. With newer products being developed which help to strengthen an already strong trade position, further improvement in earnings over both the intermediate and the longer term is expected. We feel, therefore, that retention of your holdings will prove worthwhile.

As I See It

(Continued from page 448)

German position at this time. On the contrary, evidence is accumulating to show the Nazis have passed the peak and Britain is coming up.

Germany's "Allies"

The plans on paper of the German Mediterranean campaign are one thing—and the actualities are another.

The impregnability of Gibraltar remains to be tested.

Italy is weak and completely vulnerable.

I do not believe that the Germans can count on the French soldiers and officers.

The Arabs are for England as against Hitler. There are at least a half million well equipped English and Colonial troops in Africa which could be greatly augmented by Arab sympathy. These are soldiers trained to the desert—familiar with the terrain, fanatical fighters.

In Syria it should be remembered that the majority of officers, includ-

ing General Mittelhauser's staff, went over to the British. What urge would the Syrian French soldiers have to fight for a Germany which is robbing their country of its wealth and food—destroying families and condemning its people to starvation and death?

The above are a few of the "ifs" and "buts" for Germany in the Mediterranean.

What of Russia?

If Germany concentrates her main efforts in the Mediterranean, Stalin would have plenty of cause to worry. Because Russia is vulnerable from the south where a drive from the Black Sea and Odessa to the Baku oil fields would be a Nazi probability. Russia's imminent danger due to her threatened control of the mouth of the Danube makes it advisable for her to cooperate fully with the English since their interests make it possible for them to work together to mutual advantage.

Again it is possible that in his need for action—with the element of time against him—Hitler may turn to the east on Russia in the Drang Nach Osten while his war machine is still intact.

Hitler's references to Russia in his peace ultimatum the other day were made purely for their effect on the English people who are beginning to look on Russia as a possible ally.

Actually, there is no doubt whatever that both Hitler and Stalin are plotting against each other.

In Conclusion

In the outline above I am only able to touch on the various factors which have upset and will continue to disrupt Nazi plans. From now on things will not run so smoothly for Hitler. He will have to take great risks no matter what plan he decides to adopt.

If Hitler fails to attack the British Isles, resorting purely to a campaign of wearing down English resistance, he is unlikely to succeed. The way will still be open for Britain to receive supplies and armaments from this continent. Moreover Britain will be in a position to destroy Nazi concentration supply centers, transports and other equipment designed for invasion of the British Isles.

Definite signs of Nazi weakness

would cause Russia to move further west. This certainty is undoubtedly preying on the minds of the Nazi High Command who know that Stalin's brand of terrorism is at least equal to their own.

On the other hand, if Hitler should decide to turn east, the possibility of a blitzkrieg on Russia is out in his Drang Nach Osten. It would require vast movements of airplanes, tanks and artillery which would greatly deplete the Germans and weaken their resistance if the English should at the same time undertake an offensive through Holland and Belgium.

This is the position in Europe as I see it at the moment.

Reynolds Tobacco?

(Continued from page 479)

5%. Operating ratio of 12.5% was the best of the three by a wide margin as was the ratio of sales to inventories. Earnings upon invested capital of 15.6% were not only highly satisfactory but was the best ratio of any of the reporting tobacco companies engaged in similar fields. Earnings of \$2.56 a share last year were better than those of the previous year but were far below the post depression peak of \$2.93 a share achieved in 1936. They were, nevertheless, satisfactory in view of the then prevailing conditions and will probably be bettered by a fair margin this year.

Reynolds Tobacco Company has always been liberal in the matter of dividend payments and last year was no exception to the rule. Of the \$2.56 a share earned in 1939, \$2.30 was disbursed as common dividends. This continued the rate set in 1938 and was a repetition of the lowest payment per share ever made on the stock as it is now constituted. Because the company has followed the practice of paying out a large part of its earnings to its stockholders it is likely that the dividend rate will be improved just as soon as earnings warrant such a step. If indicated gains in earnings materialize this year it is probable that an increase in the dividend rate—perhaps to \$2.50 per annum—will be soon forthcoming.

The "B" common shares, of which there are the greatest number out-

standing and which therefore offer the widest market, are not particularly volatile from a market standpoint and are currently selling at close to the low point of the year. Nevertheless, with earnings well in excess of the prevailing dividend rate and a return of better than 6 per cent at current prices for the stock, the shares must be considered attractive for semi-investment purposes and at the same time offer possibilities for longer term capital appreciation as well. In the interim, with the cigarette habit well established in this country, the outlook for the cigarette makers in general and R. J. Reynolds Tobacco Co. in particular continues to improve. The tobacco companies have little need to eye foreign markets longingly; especially in view of their success up until now without them.

Texas Gulf Sulphur— Freeport Sulphur

(Continued from page 474)

subsidiary of Gulf Oil Corp. As a result, Texas Gulf Sulphur net earnings are not so strongly diluted by the necessity of royalty payments of size although the necessary increase in the amount of common stock outstanding has a comparable effect upon earnings per share.

Both companies are in strong financial condition. Freeport's common share equity is approximately \$22.79 while that of Texas Gulf is approximately \$15.52 a share. Freeport's cash position at the close of last year was more than double total current liabilities of \$2,073,207 while Texas Gulf's cash of \$10,767,457 was more than 5 times as large as the entire quick debt. Freeport has a 20-year, 3% interest, \$3,000,000 debenture issue outstanding in the hands of two insurance companies while the sole capital obligation of Texas Gulf is the 3,840,000 shares of no par value capital stock now outstanding. Freeport's common stock issue is approximately one-fifth as large as that of Texas Gulf, there being but 796,380 shares of \$10 par value stock outstanding. Inventories valued at \$6,278,228 and \$16,912,181 for Freeport and Texas Gulf respectively are not large, representing in both instances, consid-

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New Issue

July 10, 1940

\$60,000,000 The Texas Corporation 3% Debentures, due May 15, 1965

Price 103%

plus accrued interest from May 15, 1940 to the date of delivery

Copies of the offering prospectus may be obtained from the undersigned only by persons to whom the undersigned may legally offer these securities under applicable securities laws. A complete list of the principal underwriters, including the undersigned, and the respective amounts which they severally have underwritten, subject to the conditions specified in the underwriting agreement, are set forth in the offering prospectus.

Dillon, Read & Co.

erably less than a year's reserve at the current rate of sales.

Net earnings have been remarkably good even during depression periods and because of the variation in size of their respective common stock issues, earnings per share have been running closely together. Earnings do fluctuate with the trend of industrial activity but the changes are not violent and in not one year of the past eight has either company reported much less than \$1.80 a share while the average annual earnings for the same period have been \$2.45 a share for Freeport Sulphur and \$2.31 for Texas Gulf. Last year Freeport Sulphur reported \$2.76 a share as compared with \$2.04 a share for Texas Gulf. For the

first quarter of this year Freeport Sulphur made the best showing of the two with earnings of \$1.08 a share of common stock as compared with earnings of \$0.53 a share for Texas Gulf in the same period. About \$0.47 a share of Freeport's earnings were from the manganese subsidiary and there is no way to ascertain if this rate will be maintained over the remaining quarters of the year. Texas Gulf's \$0.53 a share was about 40% better than a year ago which would, if continued, give Texas Gulf better than \$3 a share for this year. There are as yet no figures available for the half year results of either company.

With both stocks selling at approximately the same price, Texas

Gulf offers the better income for the present. The higher rate of return is offset in some measure by the greater earnings leverage of the smaller amount of Freeport Sulphur stock outstanding and the longer term prospects of the manganese division of that company. Since the period of possible exhaustion of sulphur properties lies at some distance away the problem of depletion is of small import in evaluating the nearer term outlook for these two companies. With somewhat greater wealth and the ability to produce larger amounts of sulphur it would seem as if Texas Gulf is the more attractive of the two. This is especially so in view of the excellent rate of income obtainable from the shares at the present time and the prospects of an even larger return as the demand for sulphur continues to improve.

New Status for Rail Equipments

(Continued from page 464)

U. S. Government, it is probable that the equipment makers will make an excellent showing of earnings per share for the next several years despite the limitations of restricted armament profit margins and substantial taxes.

What may be expected in the way of earnings this year is indicated by the many first quarter reports already at hand and the few first half statements that have been issued. In the first three months of 1940, for instance, Baldwin Locomotive reported a profit of \$1.25 a share as compared with a deficit of \$1.53 a share for the similar period of 1939 and a profit of but \$0.41 a share for the whole of last year. Midvale Co., a subsidiary of Baldwin Locomotive Co. devoted almost solely to the production of armor plate, armament and munitions, earned \$9.70 a share in the twelve months period ended March 31 as compared with \$6.68 a share in the same period of a year ago and \$8.52 in the twelve months period ended December 31, 1939.

New York Airbrake Co., the first company to report six months results for the current year, earned \$3.21 a share in the initial half year period as compared with about \$0.84 a share in the first half of last year

and \$2.90 for the whole of 1939.

Poor & Co., with earnings of \$0.62 a share in the first quarter of 1940, more than tripled the earnings for the same period of last year and earned twice as much in the first three months of this year as it did in the last quarter of 1939. Pressed Steel Car Co. converted a deficit of \$0.62 a share reported in the first quarter of 1939 into a profit of \$0.72 a share in the first three months of 1940 and probably earned considerably better than \$1 a share in the first half as compared with a deficit of \$1.12 a share a year ago.

American Steel Foundries earned \$1.06 in the March 1940 quarter, equal to the results of the very active last half of 1939 and within 9 cents a share of the results of all of last year's operations. American Brake Shoe's first quarter earnings of \$0.66 a share were 50% better than those of the similar quarter of a year ago and except for the last quarter of 1939 when \$0.94 a share was reported, they were the best of any previous three month period for the last several years. First half results are expected to be well in excess of the \$1.01 reported in the initial 6 months of 1939.

American Locomotive Co. which customarily reports but twice a year, has not as yet disclosed results of operations for the first 1940 period. It is indicated, however, that Alco has at least covered full preferred dividend requirements with perhaps a small margin to spare.

Pullman, with earnings of \$0.70 a share in the first quarter as compared with \$0.20 a share a year ago, should do substantially better than the \$1.05 reported for all of last year.

The stock market has not as yet afforded the railroad equipment securities any strong recognition of their excellent near term prospects but that is understandable in the light of conditions confronting the market as a whole. Nevertheless, most of the representative equipment issues are currently selling well above their previous low points although they are far below their 1940 highs. Better market conditions in general should find quick reflection in the quotations for the equipment stocks whose position will be strengthened by higher earnings and, in various instances, rising dividends.

Interlake Iron Corp.

(Continued from page 475)

it had been reduced to \$8,350,000 by the close of 1939, sinking fund and interest charges on the issue, which amounted to \$611,000 last year, were a substantial burden to deduct from the year's gross profit from sales which amounted to \$1,391,608. There were, however, no bank loans or other capital obligations other than the debentures ahead of the 2,000,000 shares of common stock outstanding.

Deficit operations have precluded the payment of steady dividends during the last ten years although prior to that time dividends were fairly constant. The last dividend payment was one of \$0.65 a share distributed in 1937 and before that \$0.15 a share was paid in 1931. Unless there is a distinct improvement in this year's income, no distribution is likely to be made to the common stockholders in 1940.

There is, however, some ray of hope. The heavy rearmament program is almost bound to increase the demand for merchant pig-iron to fill the needs of many of the tool makers, automobile builders and others who have their own foundry facilities although they lack pig-iron production capacity. Should the company pass its breakeven point of output which appears to be somewhere above 50% of capacity, earnings would mount rapidly. This is demonstrated by the fact that during the last quarter of 1939 the company is reputed to have operated on an average of 60% of capacity and as a result, earned approximately \$0.27 a share during the last period. If given that rate of production for the year, Interlake could possibly earn somewhere in the vicinity of \$1 a share of common stock but even if it were to happen that such earnings were reported it is unlikely that the market value of the shares would be sharply higher than those which now prevail. Unless, of course, the market runs away with itself and then any man's guess would be quite as good as another's as to the ultimate price achieved by this relatively unpromising member of the capital goods clan.

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